

UNIVERSITY OF LONDON  
UNIVERSITY COLLEGE LONDON

**The Role of Small Scale Enterprises  
in Reducing Poverty and Income Inequality in Africa:  
A Case Study of Manufacturing ~~Enterprises~~ Industries in Nigeria**

A Thesis

Submitted in Partial Fulfilment of the Requirements  
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## ABSTRACT

The aim of this research is to investigate the claim made for small enterprises with specific reference to their ability to reduce poverty and unemployment in the countries of the developing world. According to World Bank estimates, about 1,115 million people in the developing world lived in poverty in 1985. This represented a third of the total population of the developing world, of which 630 million were extremely poor with annual consumption less than US\$275. Evidence from Nigeria indicated that during the 1980's consumption plummeted by 7 per cent a year and the standard of living became lower in the mid-1980's than in the 1950's. With few notable exceptions, the overall evidence is that poverty and income inequality in sub-Saharan Africa is severe and has seriously limited the ability of the poor to have access to adequate work, water, clean air, habitable land and sanitation.

Since there are no social security and unemployment benefits in the majority of African countries, development experts have been forced to respond to the reality of an ever increasing number of unskilled, unqualified and untrained urban population who enter the labour market and fail to find work. It is argued that reduced investment due to capital scarcity and shifting demand for labour has resulted in higher unemployment and larger numbers of day labourers than long-term employed workers. As a result, the majority of the urban poor and the unemployed have been forced to compete for basically unskilled jobs in order to survive. Since the long-term consequences of the unskilled unemployed people are socially and politically undesirable and must therefore not be ignored, a consensus has been formed within international development establishments in favour of a strategy of development that would result in higher demand for the labour of the urban poor.

In response, the World Bank and other development experts have tried to examine the potential for job creation and other benefits from enterprises of different sizes and degrees of capital intensity, and to look for ways to assist financially and by other means manufacturing enterprises. Against this backdrop, it has been argued that small enterprises can create more jobs per unit of capital invested and have more intimate contact with the poor. Based on these arguments developing countries have been encouraged to change their national policies and procedures in favour of the development of small enterprises. Unless the limited supply of investment capital is spread more widely than in the past, it is argued, the vicious circle of poverty will persist.

Since most claims made for small enterprises are political and moral and often not based on scientific inquiries, this research sets out to examine whether small enterprises under the forces of free market are more demanding of the labour of the urban poor in the Nigerian circumstance of the 1980's. This is made possible by examining, within a historical framework, the various models of development and the structure of employment and income in Nigeria. A model of development based on small enterprises, the evolution and changing roles of small enterprises in Nigeria are also examined. This is, however, supplemented by a survey of 96 manufacturing enterprises of different sizes in some cities of Northern Nigeria. The field work which was spread between 1988 and 1990 involved in-depth data collection, observations and questionnaire administration. The findings of this research differ significantly from those offered by sponsored projects, and have therefore policy implications on the existing anti-poverty strategies.



# CONTENTS

<b>Abstract</b>	<b>2</b>
<b>Table of Contents</b>	<b>3</b>
<b>Dedication</b>	<b>5</b>
<b>Acknowledges</b>	<b>6</b>
<b>List of Table</b>	<b>7</b>
<b>Map</b>	<b>8</b>
<b>1 The Economic and Social Progress in Africa</b>	<b>9</b>
Summary of Chapters	<b>14</b>
<b>2 Poverty: Measurement and Meaning</b>	<b>18</b>
Income Distribution	<b>18</b>
Kuznets Ratio	<b>19</b>
Adelman and Morris Thesis	<b>20</b>
Ahluwalia and Chenery's Weighting	<b>23</b>
Definition and measurement of Poverty	<b>24</b>
Relative Poverty	<b>25</b>
Absolute Poverty	<b>27</b>
Measuring the extent of Poverty	<b>33</b>
<b>3 Economic Theories and Models of Development</b>	<b>43</b>
Orthodox Economic Theory	<b>43</b>
Development Economics Theory	<b>44</b>
The Classical Model of Development	<b>45</b>
The Keynesian Model	<b>46</b>
The Neo-Keynesian Model	<b>47</b>
The Harrod-Domar Model	<b>48</b>
Lewis-Fei-Ranis Model	<b>49</b>
Harris-Todaro Model	<b>53</b>
Redistribution with Growth Model	<b>56</b>
The Informal Sector Concept	<b>59</b>
Schumpeterian Model	<b>62</b>
Recent Trends	<b>65</b>
Response	<b>75</b>
<b>4 The Small Scale Enterprise Debate</b>	<b>75</b>
The Growing Importance of Small Scale Enterprises	<b>75</b>
Small Scale Enterprises in Nigeria	<b>77</b>
The Place of Small Enterprises in Nigerian Economy	<b>80</b>
The New Industrial Policy and Small Enterprises in Nigeria	<b>87</b>
<b>5 The Research Hypothesis and Data</b>	<b>93</b>
The Research Aim	<b>93</b>

	Arguments in Favour of Small Enterprise Development	95
	Research Hypotheses	102
	Research Variables Defined	104
	Research Hypotheses Explained	107
	Data Generation Procedures	114
6	<b>The Nigerian Economy: Performance and Strategy</b>	<b>125</b>
	Economic Growth	125
	Agricultural Sector	126
	Industrial Sector	128
	Manufacturing Sector	129
	The Petroleum Sector	132
	Benefits of Economic Growth	136
	History and Strategy	143
	Recent Trends	147
7	<b>Results and Analysis of Data</b>	<b>157</b>
	<i>Test Procedures</i>	
	Results of Hypothesis 1	160
	Results of Hypothesis 2	165
	Results of Hypothesis 3	168
	Results of hypothesis 4	169
	Specific Case Studies	172
8	<b>Summary and Conclusion</b>	<b>184</b>
	Summing Up	184
	Speculative Suggestion	190
	<b>Appendixes</b>	<b>199</b>
1.	Description of Survey Instrument	200
2.	List of Enterprises Surveyed	204
3.	Statistical Test Procedure	207
	<b>Appendixes Tables</b>	<b>208</b>
1.	Employment Growth Rate by Firms	209
2.	Skill Intensity of Production and Wages of Unskilled Workers	211
3.	Relative Performance of Enterprise by Size of Firm and Product Type	214
4.	Employment Growth Rate by Size of Firm and Product Type	215
5.	Demand for Labour of Urban Poor by Firm Size and Product Type	216
6.	Wages of Unskilled Workers by Firm Size and Product Type	217
	<b>Bibliography</b>	<b>218</b>



## DEDICATION

This work is dedicated to the living memory of:

my late mother, Saratu, 'Nma'

who, like majority of the poor, struggled with life  
to make me what I am today, but was rather unfortunate  
that she never lived long enough to witness this endeavour.

This work is also dedicated to my:

Father, Dachi

whose enduring hard work and love have kept me going  
despite the many difficult periods I went through in the  
process of this research undertaking.

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Last but not least is my debt to my loving wife, Esther and my three children, Takin, Shaba and Saratu. They became poor in order to make me successful. Although it was not an entirely trouble-free period, I nevertheless will remain ever grateful to Esther. The past trying years have no doubt equipped my wife for future support in my quest to join a team of experts genuinely concerned with the problem of poverty in the developing countries.

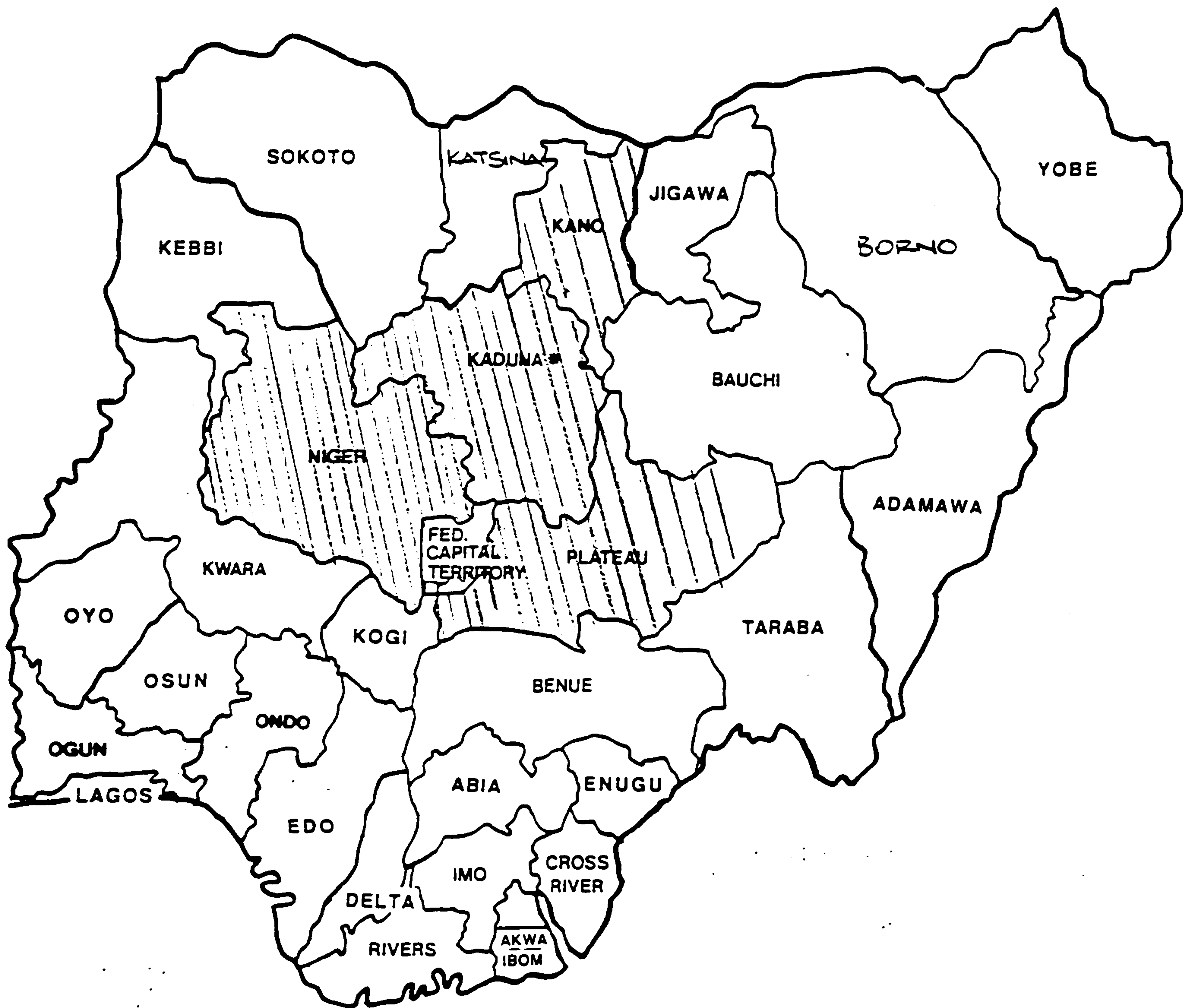


## LIST OF TABLES

1	The Performance of African Countries in Terms of Labour and Population	<b>11</b>
2	Major Demographic Indicators in Africa in Comparison With Rest of the World (1980 and 1990	<b>13</b>
3	Commodity Distribution of Small Enterprise Investment in Nigeria,1987	<b>82</b>
4	Investment in Small Enterprises by States in Nigeria,1985	<b>83</b>
5	Output/Capital Ratios in different Sizes of Factory, 1956	<b>100</b>
6	Manufacturing in Thailand- Output/ labour, Capital/Labour and Output/Capital ratios, 1981	<b>100</b>
7	Selected Economic Ratios in India by Group Sizes, 1974-77	<b>101</b>
8	Selected Economic Factors in Korea (Manufacturing ), 1986	<b>101</b>
9	Shares of Sectors of the Nigerian Economy, 1962-8	<b>127</b>
10	Gross Domestic Product of Manufacturing in Constant 1957 Prices, 1950-60	<b>130</b>
11	Production and Average Export Prices of Crude Oil	<b>134</b>
12	Capital/Labour Ratios in Nigerian and Japanese Manufacturing, 1967	<b>138</b>
13	Ownership and Control Structure of Business Enterprises in Nigeria,1972	<b>139</b>
14	Economic Misery Index, Unemployment and Inflation Rates, Nigeria, 1985-89	<b>151</b>
15	Percentage of Unskilled Tasks by Firm Size	<b>161</b>
16	Employment Growth Rate By Firm Size	<b>163</b>
17	Demand rate of labour of the urban poor	<b>167</b>
18	Wages of Unskilled Workers by Firm Size	<b>170</b>
19	Relative Performance of Firms by Product Type	<b>173</b>

# NIGERIA

## MAP OF NIGERIA SHOWING STATES COVERED BY THE SURVEY





## Chapter 1

### ECONOMIC AND SOCIAL PROGRESS IN AFRICA

Between 1960 and 1970, sub-Saharan Africa made considerable progress toward the attainment of fundamental human goals. Table 1.1 provides the performances of African countries in terms of Growth Gross Product (GDP), labour force and population. Although this advance took place from a low base most countries saw a significant growth of GDP of more than 2 per cent, with a few countries like Lesotho, Togo, Mauritius and Ghana recording figures of over 7 per cent.

Table 1.2 supplements this picture of increasing welfare providing major demographic indicators in Africa in comparison with the rest of the world between 1980 and 1990. It indicates that progressive improvements were made in the fields of life expectancy, infant mortality rate and crude birth and death rates. Life expectancy for the whole of Africa reached 51.9 years during the 1980s, a considerable improvement on the 1950-1955 figure of 38.0. Equally significant is the infant mortality rate which improved from the 1950-1955 figure of 187 per 1000 live births to 106 per 1000 in 1985-1990. The regional breakdown indicates that northern and southern Africa benefited most from this improvement.

The impressive economic performance of the majority of African countries in the 1960s was not continued into the 1970s and 1980s. Economic growth, for example, rapidly decelerated in the late 1970s dropping to 1 per cent in the 1986 and 0.8 per cent in 1987.<sup>1</sup> Agricultural output, although often recording growth, was particularly erratic reflecting current recurrent drought in several parts of the continent. Growth in industrial production, for a long time the principal income of many governments, has proven equally elusive.





This sluggish economic growth in countries with rapid population growth has resulted in a serious decline in per capita income. This fell to an annual rate of 3.4 per cent between 1980 and 1986.<sup>2</sup> This meant that average income per head was between 15 and 25 per cent lower in 1986 than in 1970. Per capita consumption also fell by as much as 14 per cent in the 1980-1987 period. Evidence across Africa shows that despite the economic recovery in Ghana, in 1985 nearly 60 per cent of the population lived on less than \$370 a year. Even in Botswana which has been one of the few African countries to achieve rapid growth (nearly 9 per cent since 1965 ), almost 50 per cent of the population had income of less than \$370 a year in 1985-86. The most current estimate suggest that in 1988 some 25 per cent of the urban population live in poverty.

A sharp rise in inflation and shortages of essential goods and services pushed many prices beyond the reach of most workers. Thus, while real wages declined by an average of 19 per cent between 1980 and 1986, prices increased on average by 18.9 per cent in 1982/83; 24 per cent in 1984 and 11.7 per cent in 1985.<sup>3</sup> The results have been intolerable reductions in living standards and serious social retrogression in nearly all countries. According to one source the cumulative impact of several adverse global conditions have been more devastating in Africa than in any developing region.<sup>4</sup>

An International Monetary Fund (IMF) source in 1988 reported that the ratio of debt to export of goods had deteriorated from 93.6 per cent in 1980 to 330.1 per cent in 1986 and 355.4 per cent in 1987.<sup>5</sup> Infact some African least developed countries such as Somalia, Sudan, Guinea Bissau and Mozambique have ratios of over 1000 per cent. Under such circumstances only 12 per cent of the 44 sub- Sahara African countries could service their debt as scheduled between 1980 and 1987.<sup>6</sup>

### Table 1.3

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This economic decline has led to a pronounced decline in social welfare as Table 2.1 indicates. This disquieting record shows that in nearly all sub-Saharan countries economic disequilibria have been aggravated and social regression and human misery exacerbated. The burden of these problems have fallen more than proportionally on the poorest sector of society. Dramatic increases in the price of food and other essential commodities have jeopardised the health and nutritional status of the poorer population. These social problems seem to be rather more acute than the economic ones as rising unemployment in countries with little or no formal social security protection, has led to large increases in the inequality of wealth.

With a labour force growing at an annual rate of 2.7 per cent and formal employment decreasing by 16 per cent between 1980 and 1986 sub-Saharan Africa now acutely suffers from under-development and unemployment. The impact of the contracting economy has been felt most severely by the young with people between 15 and 24 making up 65-71 per cent of the unemployed although they constitute 30 per cent of the population. Women too are over represented in the unemployed with one case study showing that women are twice as likely to become unemployed as men.<sup>7</sup>

Another (and more worrying) section of society blighted by unemployment are the educated. It is estimated that there were four to five million unemployed educated persons in 1987. Even more disturbing is the fact that in several countries the unemployment rate for the educated is higher than that of the workforce overall.<sup>8</sup> This under-utilization of labour has led to an erosion of human capital with large numbers of educated Africans emigrating. This brain drain has led to an estimated 70,000 skilled and professional Africans working in Europe, North America and West Asia.<sup>9</sup> Forty three per cent of these people (30,000) left the continent between 1984 and 1987.

Another trend is the increase in employment in the informal sector. The increasing inability of the formal economy to provide people with the most basic goods and services has led to people setting up their own tiny enterprises. Although these micro-enterprises created an estimated 6 million jobs between 1980-1985 (as compared to the 0.5 million jobs created by the formal sector)<sup>10</sup> the type of work involved tends to be tedious and often unsafe and its productivity is believed to be low. That the most educated and skilled people in society need to recourse to the informal sector is particularly disturbing since it is unlikely to be able to utilise their potentials. Above all it tends to erode further the livelihood of the poor whose lives depend on the incomes from the informal sector.

Indeed, the informal sector has become the symptom of a malfunctioning economic system where low income families are forced to withdraw children from school to support additional income generating activities. Equally civil servants, teachers and nurses are finding it necessary to 'moonlight' which must reduce their productivity in their primary occupations. While the slow-down in African economic growth is obviously a counterpart to the slow growth of the world economy during much of the 1980s, the problem facing Africa is both more acute and less likely to be self correcting. It is against this background that calls have been made to protect the bottom end of the income bracket.

The remaining chapters of this thesis attempt to explore theories and concepts of poverty, income inequality and unemployment. This is with a view to identifying certain policies and strategies of development that can protect the poor from getting poorer and prevent a further rise in unemployment.

### *Summary of Chapters*

Chapter two analyses the debate concerning the measurement and meaning of poverty as it relates to the less developed countries. This is then followed in chapter 3 by the presentation of a number of proposals and development strategies that relate to poverty and income inequality.



It also critically reviews the analytical frameworks and diversity of policy proposals in a number of planning studies of urban poverty and unemployment undertaken during much of the sixties and seventies. Among others, the relationship between broad theoretical developments and the economic models based on Accelerated growth and Redistribution with Growth are discussed. An alternative model for the 1990s is introduced.

Chapter four traces both the early and recent thinking about the place of small scale enterprises (SSEs) and the role they play and are expected to play in the situation of Nigeria in particular, and in sub-Sahara African countries in general. Most specifically the structure, growth and contribution of SSEs to the Nigerian economy will be examined within the context of national plans. This chapter is significant in the sense that the central focus of this research is on the assessment of the expected role of SSEs. An understanding of how SSEs have evolved over time, their changing roles and their place in the Nigerian economy, becomes very vital for a research of this kind.

Chapter five represents an attempt to harmonize the previous chapters thereby paving the way for empirical research. It deals more specifically with a more detailed discussion of the research hypotheses and the procedures for testing them. The actual methods and techniques adopted in the field survey over the period covered by the research are equally discussed. More specifically, the research parameter, sample fraction and design procedures, data collection procedures, the pilot study and the main research procedures are comprehensively discussed. Data requirement for all the enterprises covered by the survey are stated and discussed. Equally, raw data processing techniques and the final presentation of data for test statistics are established.

Chapter six is exclusively concerned with the discussion of Nigerian economy and represents an attempt to link some of the economic theories and models of development (discussed in chapters two and three ) to the Nigerian development experience. Economic achievement, the

development of poverty, increasing unemployment and widening income inequality within each of the development models will be examined. This chapter serves to establish the circumstance under which small enterprises thrive as well as the general economic environment under which enterprises are sampled for empirical testing. It is within this framework that any new policy can be appreciated if they are to have positive and far reaching impact on a society.

In chapter seven the sampled data are presented for statistical tests and analyses. All results given will relate to the hypotheses advanced in chapter five, namely: whether differences exist between enterprises of different sizes with respect to the demand for new labour force, demand for the labour of urban poor, skill intensity of production and wages paid to unskilled workers.

Finally, chapter 8 summarises the research findings with the vital points relevant to policy highlighted. The chapter ends by putting forward some speculative suggestions.

### *References*

- 1      Refer to *1989 Report on World Social Situation.* prepared by the Department International Economic and Social Affairs, United Nations, New York, 1989, p.114
- 2      *ibid.* p.37 .See also Ahluwalia,M. S.et al 1979 and World Development Report 1990,P.42
- 3      For a more detailed discussion of the changes in real minimum wages in selected African Countries between 1975 and 1986 refer to African Employment Report 1988 (Addis Ababa,1988). chapter 1. Table 5, prepared by the ILO.
- 4      *ibid* p.15
- 5      For a summary of the IMF report, see *African Recovery* vol. 2, No.3 (August 1988) p.8.
- 6      *ibid* p. 12
- 7      Refer to Human Development Report 1991 by United Nations Development Programme, Oxford Unity Press, p.17



- 8 See ILO/JASPA, *African Employment Report 1988*, op cit. p.25.
- 9 For details see International Migration, vol. xxiv, No. 1 (March ,1986), cited Economic Commission for Africa. "Progress in the areas of employment generation, productivity enhancement and co\_operation in the use of high-level manpower" (E/ECA/PAMM/HRP/TC/88/9, December 1987), p.14
- 10 See, *African Employment Report 1988*, op.cit. p.25

## Chapter Two

### POVERTY: MEANING AND MEASUREMENT

In the preceding chapter it was observed that sub-Saharan African countries' economies have slowed down considerably during the past decade, the consequence of which has been increases in underemployment and unemployment in the face of a growing population. It was also noted that dramatic increases in the price of food and other essential commodities have not only jeopardised the health and nutritional status of the poorer population but that this situation is likely to continue unless something dramatic is done to check the situation.

This chapter is set out to establish an income distribution criterion for assessing development progress as well as distinguishing between the size distribution of income and other income distribution concepts. In particular, a review of the tools of analyzing income distribution, in this case, relative and absolute concepts and the basic approaches based on relative inequality, absolute income, absolute and relative poverty will also be considered. This attempt, it is hoped, will put us on a better platform to understand how governments in Africa have perceived income distribution, poverty and the efforts made to overcome poverty.

#### *Income Distribution*

In the development literature different approaches have been made to explain the size and distribution of income in a given economy and to increase our understanding of the relationships between explanatory variables such as economic development or democracy on the one hand, and income distribution, on the other hand. Income inequality measures have been the most dominant.

All relative income inequality measures are conventionally illustrated by the Lorenz curve, which depicts the share of cumulative percentage of the population ordered from lowest income to highest.<sup>1</sup> The Gini coefficient: the fractile measures, such as the income share of the poorest 40 percent and the richest 5 percent, which can be read directly from the Lorenz curve:



the variance or standard deviation of income or its logarithm; the coefficient of variation and; the Kuznets ratio are some of the traditional measures of relative income inequality directly linked to the Lorenz curve.

All these measures are *mean* dependent and they also use the income distribution data to construct an index of income inequality. These approaches have been seriously questioned since the definition of poverty on the one hand, and income distribution statistics in less developed countries on the other hand, hardly took into account variables such as wealth, housing conditions, infant mortality, intra-family gifts, and other economic indicators. Since the objective of this dissertation is to look for the most effective way of reducing poverty and unemployment in Nigeria the debate surrounding these concepts will be considered in the following sections. This chapter therefore represents a literature review of the various attempts made by researchers in the past to establish the variables that determine the distribution of income in a given economy. We begin with the initial research work of Kuznets since his inverted 'U' curve hypothesis has attracted a great deal of attention and support which, in effect, has resulted in the implementation of the policy recommendations in some developing countries.

### *Kuznets Ratio*

During the 1960s Kuznets<sup>2</sup> attempted to link income inequality to the level of economic development of a particular country within a historical perspective. Preoccupied with the problems of income inequality - the character and causes of long-term changes in the personal distribution of income, Kuznets enquired:<sup>3</sup> 'Does inequality in the distribution of income increase or decrease in the course of a country's economic growth?'. 'What factors determine the secular level and trends of income inequality?' To answer these questions Kuznets sampled data from the United States, England, and Germany. The analysis of the data lead to the conclusion that the relative distribution of income as measured by annual income incidence had been moving toward equality - with the trend particularly noticeable since the 1920s.<sup>4</sup>



The outcome of analysis of the data led Kuznets to hypothesise that income inequality tended to widen in the early stages of development, with a revival on the latter stages. Kuznets revealed that the incomes of the poorest 40 per cent of the population normally grew more slowly than the average until income per person reached an average of US\$700 to US\$900. Beyond this range, the incomes of the poorest groups would then grow faster than the average. For Kuznets, the size distribution of income was perceived to be a curvilinear function of the level of economic development.<sup>5</sup>

#### *Adelman and Morris thesis*

One research finding that differed considerably from that of Kuznets was that of Adelman and Morris<sup>6</sup> in which they found that economic growth did not only lead to increasing income inequality but that the poor do lose in absolute terms as well. Their research was based on cross-sectional study of 43 developing countries during the late 1960s and early 1970s. In the study they observed: 'when economic growth begins in the subsistence agrarian economy through the expansion of a modern sector, inequality in the distribution of income typically increases greatly, particularly where expatriate exploitation of natural resources provides the motivating force for growth'. The dualist nature of the society was identified to be an important explanatory variable in the distribution of income. The less dualistic a country the better for the middle-income group.

Their studies, for example, indicated that the income share of the poorest 60 per cent declined significantly, as did that of the middle 20 per cent while the income share of the top 5 per cent increased strikingly.<sup>7</sup> It also suggested that, in an average country going through the earliest phases of economic development, it could take at least a generation for the poorest 60 per cent to recover the loss in absolute income associated with the typical spurt in growth.

The principal impact of economic development on income distribution was the tendency to decrease both the absolute and relative incomes of the poor making economic growth the basic



determinant of patterns of income distribution. The major factors of relative poverty identified by Adelman and Morris included: per capita income; strength of the labour movement; social economic dualism; rate of improvement in human resources; and direct government economic activity.<sup>8</sup> With respect to policy, Adelman and Morris suggested that any attempt to reduce dualism by, for example, widening the base for economic growth could be very important for improving the position of the middle-income groups.

Provision of credit to small, indigenous rural and urban entrepreneurs and expansion of technical services to promote the spread of new seeds throughout agriculture were some of the instances given. They therefore concluded that once some minimum level of development was reached a wider coverage of improvements in economic institutions (accompanied by either social advances or a shift in trade structure toward more diversified manufacturing exports supported by government policy ) was likely to increase the share in total income of the middle-income groups.<sup>9</sup>

Increases in per capita gross national product (GNP) thereafter came to be associated with a worsening of income distribution at the low levels of development. Only at the very high levels of development in low-income nations was higher per capita GNP associated with a more equal income distribution of income. But in the past decades the Adelman and Morris thesis has received severe criticism both in terms of the reliability and quality of data and of the lack of a well-defined theoretical framework, as well as some scepticism about the appropriateness of the statistical method employed.

Paukert<sup>10</sup>, for example, refined Adelman and Morris estimates leading to the conclusion that inequality begins at a comparatively low level, reaching a peak in the \$430-\$500 per capita-income countries, and then diminishing at higher incomes reconfirming the inverted 'U' pattern advanced by Kuznets. Similarly, Ahluwalia (to be considered below) could not find evidence to

support the pessimism expressed by Adelman and Morris concerning tendencies toward absolute impoverishment during some phases of economic growth.

Using data from previous investigations and concentrating on the internal income inequality, Weede and Tiefenbach<sup>11</sup> examined five separate explanations of the internal income inequality. Their finding led to the conclusion that, although none of the previous explanatory approaches claimed to offer a complete explanation, Kuznets's inverted 'U'-curve explanation was far more convincing than those of Adelman and Morris.

Weede and Tiefenbach also noted that the level of economic development, as measured by the gross national product per capita, was a very strong correlate or determinant of income inequality.<sup>12</sup> Their findings thus firmly established the evidence that the distribution of income is rather egalitarian at low levels of economic development, then becomes less egalitarian and reaches a maximum of inequality at middle levels before it becomes more egalitarian again at higher levels of development.

Another contribution to the debate on relative inequality was that introduced by Chiswick.<sup>13</sup> His model (*Relative-Poverty Approach*) was based on elementary human-capital. The figure was the absolute income, in constant dollar, received by the poorest 40 percent of the population or some other predetermined percentage. By this approach, economic growth was thought to raise social welfare when the average income of the poorest 40 percent was higher. Chiswick deduced that variability in earned income was functionally related to four variables namely: the average level of investment in human capital; the average level of the rate of return to human capital; the inequality of investment in human capital; and the inequality in the rate of return to human-capital investment. These hypotheses were then subjected to empirical testing in a cross section of nine countries, four of which were in the less developed countries.



Chiswick's relative poverty approach was equally criticised for suffering serious conceptual limitations especially when it came to measuring who benefited from economic development. Fields<sup>14</sup> argued that 'development processes are typically uneven, and only some of the poor benefit, not all'. On this ground the relative poverty approach was dismissed for measuring only those left behind and insensitive to the rate of movement of the poor out of poverty.

#### *Ahluwalia and Chenery's Weighting*

Relative inequality and absolute-poverty approaches are the two main ways in which distributional aspects of economic development have been considered in the literature, the latter having been considered above. In the last decade an approach to the measurement of poverty in the developing countries has leaned toward absolute poverty. This shift is partly in response to the increasing incidence of poverty and of the dissatisfaction with some prominent economists who define development in terms of economic stages based on the experiences of the more developed countries. The following therefore examine the most serious attempt to integrate absolute income considerations into an analysis of development.

Ahluwalia and Chenery's<sup>15</sup> proposal involved the division of society into socioeconomic groups according to assets, income levels and of how to measure the income growth of each. In practice they divided the population into quintile groups in which three different possible weighting schemes such as GNP weights, equal percentage weights, and poverty weights were employed. In 1976 Ahluwalia<sup>16</sup> (of the World Bank - and represents an improvement over the 1974 proposition) drew on data from sixty-two countries and instead used the income shares of the top 20 percent, middle 40 percent, lowest 40 percent and lowest 60 percent as alternative indicators. He found a statistically significant relationship between income shares and per capita GNP consistent with the inverted 'U' pattern. He, however, did not find an independent short-term relationship between the level of inequality and the rate of growth of the GNP.



The explanatory variables found to have been associated with relative income inequality were: the rate of expansion of education; the rate of decline of demographic pressures; and changes in the structure of production in favour of the modern sector. Improvements in literacy, reduced rate of growth of population, reduced share of agriculture in the national product, and shifting of population to the urban sector were found to have the potential for reduced relative income inequality.<sup>17</sup>

### ***Definition and Measurement of Poverty***

During the 1970s development economists made significant progress in attempts to define and to establish a common measurement of the extent of poverty. Although the current measurement of the extent of poverty is yet to be universally accepted sociologists, economists and development planners have, nevertheless, made significant contributions to increase our understanding in this direction.

One aspect of income distribution that is of particular interest is the extent of poverty, that is the extent to which some people in the society have a standard of living below some specified poverty line. In the literature there are two approaches to defining the poverty line. According to one approach, the poverty line is a relative concept, fixed in relation to the average income of the community as a whole.

This is the approach generally followed in the developed countries. On such a definition, poverty line varies between countries and over time with the average level of income, and is an aspect of the pattern of income distribution. In contrast, the poverty line in less developed countries is usually based on an absolute concept of a minimum standard of living below which a person cannot satisfy his or her basic needs of food, clothing and shelter.

In early 1980s there was heated debate regarding whether poverty should be conceptualised in terms of relativist or absolutist perspective. In particular the confrontation between Professors



Peter Townsend and Amarta Sen will be examined here to illustrate the attempts made to define the extent of poverty and its measurement and the associated difficulties in arriving at any universally acceptable measurement.

### *Poverty as a Relative Concept*

In 1979 Townsend<sup>18</sup> (driven by his discontent with the approaches of defining and measuring poverty) put forward a conceptualisation of poverty in terms of *relative deprivation* and provided an oversimplified empirical description to further explain the concept. After allowing for size of the family, Townsend noted that the correlation between the level of income or total resources and the extent and severity of deprivation in rich societies like Britain was by no means perfect, although highly significant. For example, 'some people are much less "deprived" than others on the same income; some are much more "deprived"'. A lot will depend on local variations in social integration, association and exchange as well as local variations in prices, especially costs of housing, in relation to facilities gained, including local facilities'.<sup>19</sup>

Against this setting Townsend concluded that in any society, the level of resources available to the local community, the family and the individual would seem in the end to govern whether or not individuals within that community can satisfy social obligations, expectations and customs hence need. Townsend stressed that as members of society (and hence of sub-groups) 'people have needs which can only be defined by virtue of the obligations, associations, and customs of such membership'<sup>20</sup>. He therefore concluded that there seemed to be a continuum of deprivation in accordance with ranked income or total resources. Below an approximate threshold of income, deprivation seemed to intensify, accelerate or multiply disproportionately.

Townsend exemplified his case by a situation in which people seem to strive to conform with what is expected of them when income shrinks - that is - the tendency to economise in what

they do while still undertaking the same activities - but once it shrinks below a particular level they withdraw or withdraw their children from fulfilling certain social obligations or well-established customs or activities. They no longer meet friends, children are occasionally absent from school, heating is turned off, conventional diets are no longer regularly observed, visitors are not longer invited into the home, ill-health and disability became more common.<sup>21</sup>

Although Townsend's proposition was not scientifically demonstrated he however backed it up with illustrative examples and confessed that it was not claimed that the existence of such a threshold had yet been systematically demonstrated; although some economists researching the same issue considered the conclusion highly arguable.<sup>22</sup> It was within this framework that Townsend contended that the subsistence concept of defining poverty was insufficient because the criteria of 'physical' need (for example, for food, shelter and clothing) were over-emphasised to the near exclusion of criteria of social need ( for example, in fulfilling the roles of citizen parent, neighbour, friend, professional, and client). Using this approach Townsend attempted to provide an alternative definition of poverty thus:<sup>23</sup>

poverty can be defined objectively and applied consistently, only in terms of the concept of relative deprivation...Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and the living conditions and amenities which are customary, or are at least widely encouraged or approved, in the societies to which they belong. Their resources are so seriously below those commanded by the average individual or family that they are, in effect, excluded from ordinary living patterns, customs and activities.

For Townsend, poverty is a social phenomenon and must be viewed within the framework of relativity since human needs are essentially social. He therefore recommended that any analysis or exposition of standards of living and poverty must be identified and measured in that spirit.



### *Poverty as an Absolute Concept*

During the 1970s Sen<sup>24</sup> became worried with the 'great uncertainties about the appropriate way of conceptualising poverty in the richer countries' which had repeatedly posed some questions. Some of the questions posed by Sen included: 'Should the focus be on "absolute" poverty or "relative" poverty? Should poverty be estimated with a cut-off line that reflects a level below which people are-in some sense- "absolutely impoverished" in particular?, or a level that reflects standards of living "common to that country" in particular?' Sen believed that these questions do not bring out the real issues clearly enough and that a consensus seemed to have emerged in favour of taking a "relative" view of poverty in the richer countries.<sup>25</sup>

In a rather cynical way Sen remarked that there was much merit in the relative view especially 'against the simplistic absolute conceptualisation of poverty'. Against this setting he opined... 'ultimately poverty must be seen to be primarily an absolute notion but with a completely different specification of the absolute levels from the way it used to be done in the older tradition.'<sup>26</sup> He nonetheless agreed that a more general question about determining the absolute standard of living lied at the root of the difficulty. Dissatisfied with the previous approaches Sen set out to examine the issue in greater details. Before his alternative approach to conceptualising poverty is discussed the following trace the historical trends in the analysis of poverty.

To illustrate his point Sen gave a historical account of the factors that were responsible for the shift of emphasis from absolutist to relativist viewpoint. He argued that the old absolute standards (which were still relevant) were dropped prematurely by the more advanced countries in favour of the relativist direction. Such a rushed departure, noted Sen, was pioneered by the work of Seebohm Rowntree<sup>27</sup> in his famous poverty studies in York in 1899 and 1939 in which calculations using poverty lines derived from nutritional and other standards were applied.

It was in this context, argued Sen, that the change of emphasis in the academic literature from an absolutist to a relativist position of poverty took place. In Sen's view this had the immediate effect of 'debunking the smug claims based on inadequate absolute standards'.<sup>28</sup> The various relativist views, the view of poverty as an issue in inequality and the so-called policy definition of poverty were rejected by Sen as inadequate theoretical basis for conceptualising poverty. Sen therefore proposed his conceptualisation of poverty based on what he called the more favoured *absolutist* core.

Townsend and Hirsch's<sup>29</sup> claims about the difference between achieving relatively less than others and achieving absolutely less because of falling behind others was seen by Sen as an attempt to lump together needs, commodities and other things. Sen consequently called for a closer examination of the relationship between these different spaces<sup>30</sup> and set out to question the conceptualisation underlying this change and in particular the views that poverty is an essentially social phenomenon.

Sen also criticised Fiegehen, Lanskey and Smith<sup>31</sup> just as he did Miller and Roby's<sup>32</sup> attempts to link poverty with inequality. Sen pointed out that a sharp fall in general prosperity causing widespread starvation and hardship must be seen by any acceptable criterion of poverty as an intensification of poverty. Any attempt to view poverty straightforwardly "as an issue of inequality" was accordingly rejected by Sen.<sup>33</sup>

The approach of using the Supplementary Benefit scale as the poverty line (Sen calls this the policy definition of poverty) as advanced by Beckerman and Clark<sup>34</sup> was seen by Sen to be problematic. Sen asserted that the perversity whereby an increase in the attempt by the State to deal with poverty and low incomes by raising the Supplementary Benefit scale would tend to increase rather than diminish the measured level of poverty by, for example, raising poverty



line. In this view *helping* more is read as more help being *needed*<sup>35</sup> which also would tend to give the interpretation that the most effective strategy for the government to adopt to reduce the number of the 'poor' would be to cut rather than raise the level of assistance through Supplementary Benefits which according to Sen could hardly be right.

Since Sen believed that *absoluteness* of needs was not the same as their *fixity over time* he rejected the relativist approach which saw deprivation in terms of a person or a household being able to achieve less than what others in the society do. Relativeness, noted Sen, ought not be confused with variation over time. One element of the absolutist core identified by Sen was starvation and hunger and as he put it - 'no matter what the relative picture looks like there clearly is poverty'. In this sense 'the relative picture - if relevant - has to take a back seat behind the possibly dominating absolutist consideration.'<sup>36</sup>

Sen further added that even in a situation where poverty involving malnutrition or hunger may appear irrelevant to the richer countries a shift of attention from hunger to other aspects of living standard the absolutist aspect of poverty would not disappear. Sen therefore noted ...'the fact that some people have a lower standard of living than others is certainly proof of inequality, but by itself it cannot be a proof of poverty unless we know something more about the standard of living, that these people do in fact enjoy'<sup>37</sup>.

The temptation to think of poverty as being altogether relative, explained Sen, arose partly from the fact that the absolute satisfaction of some needs might depend on a person's relative position vis-a-vis others in much the same way as the absolute advantage of a person to enjoy, say a lonely beach, might depend upon his relative advantage in the space of knowledge regarding the existence and access to such beaches. The right focus for assessing standard of living, argued Sen, 'is neither commodities, nor characteristics, nor utility, but on a person's capability.'



He illustrated his case with a bicycle which is a commodity and has several characteristics one of which is transportation. The transportation characteristic of the bike, explained Sen, gives the person the *capability* of moving in a certain way. That capability may give the person utility or happiness or pleasure from moving. So there is a sequence from commodity (the bike) to characteristics (transportation) to capacity to function (ability to move) to utility (pleasure from moving). It is this capability, noted Sen, that comes closest to the notion of standard of living. The commodity ownership or its availability itself, argued Sen, 'is not to be the right focus since it does not tell us what the person can do'.<sup>38</sup> Having a bike, for example, 'may provide the basis for a contribution to the standard of living, but is not in itself a constituent part of that standard'. While the utility reflects the use of a bike Sen noted that, 'it does not concentrate on the use itself, but on the mental reaction to that use'.

On the basis of this exposition Sen stressed that the constituent part of the standard of living is not the good, nor its characteristics, but the ability to do various things by using that good or those characteristics, and 'it is that ability rather than the mental reaction to that ability in the form of happiness' that reflects the standard of living. Other examples of capabilities he gave include: 'to meet nutritional requirements, to escape avoidable disease, to be sheltered, to be clothed, to be able to travel, to be educated, to live without shame, to participate in the activities of the community, and to have self-respect'.<sup>39</sup>

Sen further emphasised that since the more physical needs tend to dominate over the needs of communal participation as presented by Townsend, there was the need for some sorting out of the absolute-relative disputation in the conceptualisation of poverty. This is against the setting that while the commodity requirements are sensitive to the opulence and the affluence of the community in general, 'this relationship is neither one of instant adjustment, nor is it a straightforward one to be captured simply by looking at the average income, or even the current lorenz curve of income distribution'. Since response to communal standards is more complex than that, Sen concluded that 'poverty is an absolute notion in the space of capabilities but very



often will take a relative form in the space of commodities or characteristics'.<sup>40</sup>

Another conceptualisation of poverty that has direct bearings on Sen's approach is that developed by Rawls.<sup>41</sup> Although Rawls' conceptualisation of poverty differed from the utility-based theories, he stressed *primary goods* and backed it up with arguments on the importance of capabilities. The variables Rawls focused on included: incomes; freedom of movement; goods that is, food needed to meet certain nutritional requirement and characteristics (that of self-respect). It is within this framework that Sen developed his capability approach.

Sen's approach shares with Rawls' the rejection of the traditional utilitarian obsession with one type of mental reaction. Although Sen admitted that his approach was a possible extension of the Rawlsian perspective (which concentrates on primary goods) his, however, focused on the capabilities of human beings (such as meeting the need of self-respect or what Rawls called "the social basis of self respect") rather than characteristics of goods they possess.<sup>42</sup>

Sen's approach therefore served to make Rawls approach explicit, by for instance, acknowledging the enormous variability that exists in the commodity requirements of capability fulfilment. This extension, argued Sen, 'makes a substantial practical difference principally because there are differences within a given country or community in the mapping from commodities to capabilities'. For example, in a country with various racial groups even the food requirements of nutritional fulfilment may vary a great deal from one group to another.<sup>43</sup> This type of intra-country or intra-community differences, remarked Sen, can be very important even in rich countries and even those with a basically homogeneous population.

Within this framework Sen concluded that focusing on capabilities can bring out the importance of these intra-community variations in the commodity space, 'going well beyond the intra-community variations emphasized in the typical relativist literature'.<sup>44</sup> Sen's approach is therefore based on the notion of capability which differs both from commodities. characteristics



and the utilities based notions. Within the space of capability poverty is seen by Sen as a failure to reach some absolute level of capability. Examples of capabilities with various resource requirements include the capability to live without shame (as noted by Adam Smith)<sup>45</sup>, being able to participate in the activities of the community (as discussed by Peter Townsend) and having self-respect (discussed by John Rawls).

In his rejoinder to Sen's article Townsend, rather irritated, dismissed Sen's conceptualisation of absolute poverty. For example, Townsend stated that Sen had given 'very confused grounds for retaining an "absolute" core to the meaning of poverty'. Furthermore, he argued that 'the problem of reiteration of the virtues of an "absolutist core" to the meaning of poverty is the underestimation of the importance of needs other than for food (and perhaps for other "physical goods and facilities")<sup>46</sup>. Townsend also remarked that Sen appeared not to have clearly distinguished in principle between social (including State) and scientific or objective definitions of poverty; and his inability to offer any serious criteria of poverty independent of income. Townsend maintained that the problem was not merely to recognise social as well as physical needs but to clarify the social determination and nature of physical needs and hence to comprehend the restrictive and unrealistic functions of an "absolutist" conception of needs.<sup>47</sup>

Townsend therefore concluded by remarking that 'human needs are essentially social, and any analysis or exposition of standards of living and poverty must begin with that fact'.<sup>48</sup> Thus, remarked Townsend, all types of needs, even the capabilities in the sense used by Sen are socially created and have to be identified and measured in that spirit.

In a reply to Townsend's criticism of his paper Sen maintained that there was 'no conflict between the irreducible absolutist element in the notion of poverty - as it relates to capabilities and the standard of living - and the "thoroughgoing relativity" to which Townsend refers to, if the latter is interpreted as applying to commodities and resources'<sup>49</sup>.



### *Measuring the Extent of Poverty*

Having to a considerable extent examined the nature of the debate surrounding income distribution and the definition of poverty the following represent an equally controversial attempt made in the literature to measure the extent of poverty.

In the more advanced countries, because of the relative concept of the poverty line, the proportion of the poor people varies only around 10 to 15 per cent of the population at the bottom of the income scale, who are somehow left out of the normal functioning of the economic system, such as the aged, the handicapped, and the unemployed.<sup>50</sup> In the less developed countries where the absolute concept has been widely used the proportion of the poor people may vary much more depending on the average incomes of countries. Since this research is focused particularly on the less developed countries the remaining sections examine the various measurements of poverty line as applied in these countries.

Using a poverty line estimate of an annual income of US\$80 per person, converted to the local currencies at purchasing power parities, Ahluwalia<sup>51</sup> estimated that the population living in poverty in 1975 was about 38 per cent the population of a large sample of less developing countries. Using a nutritional standard, the United Nations estimated that a quarter of the population of less developed countries were living below 1.2 times the basic metabolic rate.<sup>52</sup>

Since the above measure counted only the number of the poor and did not take any account of the extent to which their incomes were below the poverty line it was rejected in favour of "poverty gap".<sup>53</sup> This too was rejected for not quite capturing the extent of poverty since it had implicit assumptions that the suffering of the poor was proportional to the extent to which their incomes fell below the poverty line. Consequently it came to be accepted that the extent of poverty was more than proportional to the deficits of income below the poverty line.<sup>54</sup>

In 1976 Atkinson<sup>55</sup> introduced the now familiar inequality measure known commonly as the *Atkinson index* which was based on the concept of equally distributed equivalent income. His approach suggested that social welfare in the economy could be perceived as the sum of the values placed on each individual's or family's income. Basing his argument on data taken from a group of 12 countries, Atkinson showed how inequality ranking by Atkinson index of income distribution changed as income increased. He deduced from the calculations that any focus on the relative incomes at the bottom of the distribution was more likely to improve the situation of income inequality.<sup>56</sup> Thus within the utilitarian (or personal welfare ) framework, inequality came to be manifested as the social welfare loss. Some economists (for example, Sen to be discussed below) have however shown strong reservations about the capacity of the Atkinson index to describe inequality.

Another approach to the measurement of poverty line that requires mentioning is that emphasized by Gary Fields.<sup>57</sup> His approach was also based on absolute poverty approach with great emphasis on income and nutritional levels as yardstick for measurement. Fields, like Sen rejected the definition of poverty based on relative criterion maintaining that such measurements have the tendency to disguise changes in absolute poverty among the poor in the developing countries. Fields therefore suggested that measurement of absolute poverty alleviation would require the definition of time-invariant real-income figure called the poverty line. This should be followed by the number of persons (or families) with incomes below that line and the average incomes among them. He also advised on the usefulness of knowing the degree of income inequality among the poor.<sup>58</sup>

To comply with this recommendation the measurement of the alleviation of absolute poverty would necessarily require comparable detailed figures and the size distribution of income for at least two or more time periods. One way of doing this, suggested Fields, would be to establish a dollar-income figure, chosen as scientifically as possible. An empirical example of this is the



one he used in Brazil where poverty line was taken as the minimum wage (based on size of a family) in the poorest region, adjusted in other parts of the country for cost-of-living differences.<sup>59</sup> Absolute-income standards such as \$150 per capita or the minimum wage in the country (once such is held constant) was considered by Fields as reasonable benchmarks for measuring poverty alleviation.

### *Sen's Personal Welfare Inequality Concept*

Dissatisfied with the utilitarian concept and other measures based on the poverty gap discussed above Sen complained: ... 'the social welfare ranking could not care less about distribution as such...' and 'The attempt to identify *greater inequality* with lower social welfare leads to contradictions arising from the fact that both inequality and social welfare are *primitive* notions, and they cannot be arbitrarily declared to be identical without some genuine loss of meaning.'<sup>60</sup>

Against this setting Sen introduced an alternative approach (known commonly as the *personal welfare inequality*)<sup>61</sup> which took account of the inequality of income of the poor as well as allowing for the proportion of people living below the poverty line and the extent to which their incomes fell short of the poverty line. Unlike others, Sen's measure of personal welfare inequality was derived from certain axioms based on welfare considerations although largely an extension of the utility gap approach.

In a much improved measure of poverty line (based on the absolutist concept within the framework of capability and as examined above) Sen recommended that poverty line be defined to represent the level at which a person can not only meet nutritional requirements and income but, also capable of achieving adequate participation in communal activities as well as being free from public shame from failure to satisfy conventions.<sup>62</sup>

measurement of poverty alleviation. This approach puts into consideration the effect of transferring incomes from the non-poor to the poor as to eradicate poverty completely on the inequality of income distribution measure.

### *Summary*

In this chapter attempts have been made to examine the various income distribution criterium and the definition of poverty and its measurements. Two major approaches of income distribution in the developing countries were identified in terms of relative and absolute concepts. Both concepts were found to have limited applications in the situation of underdeveloped countries for a number of reasons. It was partly as a result of the dissatisfaction with these concepts that further attempts were made to provide a universally acceptable definition of poverty in order to make effective certain policy initiatives in the less developed countries.

The evidence provided in this literature review has indicated that no acceptable definition of poverty as been arrived at. Equally significant is the fact that attempts made to measure poverty are far from being settled thus compounding major policy difficulties in most of the countries affected. The implications of such inconsistencies on the countries of the developing world, and the implications of the policies aimed at the poor will form the subject of enquiry in the next chapter.



## References

- 1 All relative inequality measures in current use are based on the Lorenz curve in two senses: one, they use the income distribution data depicted by the Lorenz curve to construct an index of income inequality; and two, like the Lorenz curve, the relative inequality remains unchanged if everyone's income changes by the same constant percentage.
- 2 Simon Kuznets was particularly attracted to the debate on internal gap between the rich and poor in developing countries, and in 1954 delivered a presidential address to the American Economic Society to that effect. Interested readers should consult the *American Economic Review*, vol. 45 (March, 1955):1, p. 3-6, 17-26.
- 3 See *American Economic Review*, op cit. and also reprinted in Selingson, M.A. "The Gap Between Rich and Poor: Contending Perspectives on the Political Economy of Development", 1984, p.26.
- 4 Kuznets also discussed in some details the possible causes of this trend, examined those factors in the process of industrialisation that tend to counteract the trend toward the increasing concentration of savings in the hands of the wealthy. Interested readers on this aspect should see the *American Economic Review*, op cit. for details. See in particular Kuznets, 1966 for a further discussion on the development problem and how it relates to income inequality.
- 5 See Kuznets, S (1963) 'Qualitative Aspects of the Economic Growth of Nations, VIII: The distribution of Income by Size', *Economic Development and Cultural Change* (January) p.67
- 6 Adelman, I and Morris, C. T. 1971 'An Anatomy of Income Distribution pattern in Developing Nations'. *Development Digest*.
- 7 See also Adelman and Morris et. al (1973) 'Who Benefits from Economic Development?' Conference of International Meeting of Directors of Development, Research and Training Institutes (OECD)
- 8 *ibid*
- 9 *ibid*

- 10 Paukert, F. 1973 "Income Distribution at Different Levels of Development: A Survey of Evidence" in *International Labour Review*
- See also *Income Distribution and Economic Development* by Paukert et al 1984, ILO Geneva
- 11 See Weed And Tiefenbach, 1981 "Correlates of the Size Distribution of Income in Cross-National analysis", in *Journal of Politics* No.43 (Nov.)
- 12 See Weed And Tiefenbach, 1981 "Correlates of the Size Distribution of Income in Cross-National analysis", in *Journal of Politics* No.43 (Nov.) See also Weede, E. 1980 'Beyond Mis-specification in Sociological Analyses of Income Inequality', *American Economic Review* no. 45 (June)
- 13 Chiswick, C.U (undated) 'Identification of the Urban Poor', in *Urban Poverty Task Force Report*, Mimeo
- 14 See Fields, S. G. "Assessing Progress toward Greater Equality of Income Distribution" in *Third World Poverty* by McGreevey, W.P. p. 47-75 (1980).
- 15 Ahluwalia and Chenery, 1974
- 16 Ahluwalia, M.S et al. (1979) 'Growth and Poverty in Developing Nations' in *Journal of Development Economics*. VOL.6 September
- 17 Ahluwalia, 1976 in *Journal of Development Economics*, no. 3, 1976, p. 307-342 (North- Holland Publishing Co.). Also reprinted in *Development Economics and Policy : Readings* (ed.) by Livingstone, I. 1981, p.30-48
- 18 Professor Peter Townsend is a lecturer in economics at the University of Bristol, United Kingdom and specialises in poverty in the United Kingdom.
- 19 Townsend, P. *Poverty in the United Kingdom*, Harmondsworth, Middlesex, Penguin Books. 1979, chap. 1
- 20 *ibid.* chapter 4, See in particular p.37



- 21 Townsend, 1979b, p.17-18 . See also A Rejoinder to Professor Amartya Sen by Professor Peter Townsend in Oxford Economic Papers, New Series, vol. 37, Clarendon Press, 1985. Oxford University Press, p. 660.
- 22 For more details on this topic refer to Desai, M (1983), "On defining and Measuring Poverty", London School of Economics. For an example of the attempts made in other societies to apply Townsend's methodology see Chow (1982), Poverty in an Affluence City: A Report on a Survey on Low Income Families in Hong Kong, Department of Social Works, the Chinese University of Hong Kong.
- 23 See Townsend (1979), op cit. p.31.
- 24 Professor Amartya Sen is also an economist and specialises in the studies of poverty in the developing countries.
- 25 Sen, A. (1983), Poor, Relatively Speaking, in Oxford Economic Papers, 35 (1983), p. 153-169. In particular see page 153.
- 26 ibid p. 153.
- 27 For more details on Seeborn Rowntree famous poverty studies of York in 1899 and 1936 see Rowntree and Lavern (1951), p.40. It is on this initial work that Sen derived part of his criticism of the so called premature optimism about the elimination of poverty in rich countries.
- 28 Sen, A (1983), op. cit p.154
- 29 Fred Hirsch gave a different type of interdependent from that of Townsend. His was based on what he called "positional goods". For example, one's ability to enjoy an uncrowded beach (explain Hirsch) may depend on one knowing about the beach when others do not, so that *the absolute* advantage one will enjoy being on an uncrowded beach will depend on one's *relative* position - knowing something that others do not. Interested readers should see his book: "Social Limits to Growth", Cambridge, Mass., Harvard University Press. 1976
- 30 Sen Op cit. p.156

- 31 For a more detailed examination of a different approach to the relativist view see Fiegehen, G. C, Lansley, P. S and Smith, A. D., in their book titled "Poverty and Progress in Britain 1953-73", Cambridge, Cambridge University Press.
- 32 See also the attempts made by Miller, S. M and Roby, P. (1971) to link poverty to inequality in Britain in "Poverty: Changing Social Stratification", in Townsend, P. (ed.), The Concept of Poverty, London, Heinemann.
- 33 Sen (1983) op cit. p.156-7
- 34 See Beckerman , W. and Clark S.(1982), p. 4 .
- 35 Sen (1983), op cit. p.158.
- 36 ibid p. 159.
- 37 ibid p. 158.
- 38 ibid p. 160.
- 39 These are some of the elements Sen referred to as the irreducible absolutist core in the idea of poverty. They are based on such elements as advanced by Townsend and others already considered in the text.
- 40 See Sen (1983) op cit p. 161.
- 41 Rawls, J. (1971). p440-6.
- 42 Sen (1983), p.160
- 43 Sen sited India to illustrate his point that people in Kerala state of India have both the lowest level of average calorie intake in the country and the highest level of longevity and higher nutritional fulfilment. This example thus serve to demonstrate that variations exist between regions in their nutritional requirement even within one country. Setting a standard for the nutritional requirement might thus prove unhelpful.
- 44 Sen (1983). p. 164



- 45 Both Sen's criticism of the relativist concept and the development of his capability concept is partly built on Adam Smith's explanation of necessities in his *Wealth of Nations* (1776, p.351-2). Adam Smith understood necessities not only in terms of the commodities which are indispensably necessary for the support of life, but ' what ever the custom of the country renders it indecent for creditable people, even the lowest order, to be without'. For example, Adam Smith observed that custom at his time had rendered leather shoes a necessary of life in England to the extent that the poorest creditable person of either sex would be ashamed to appear in public without them. In Sen's view this type of capability referred to by Adam Smith had strong psychological component in the way that other capabilities that had been thought to be basic might not have, for example, the ability to be well nourished or to move about freely or to be adequately sheltered. Interested readers on this issue should refer to Sen (1980) for a more detailed discussion.
- 46 See Townsend's rejoinder to Sen (1985), op cit. p.
- 47 Townsend, P. op cit. p. 665.
- 48 For a comprehensive study of poverty in the United Kingdom and measurements refer to Townsend, P. (1962 and 1979a)
- 49 See Sen, A. (1985), 'A Sociological Approach to the Measurement of Poverty: A Reply to Professor Peter Townsend'in *Oxford Economic Papers*,37 (1985) p.669-676
- 50 Kakwani, N (1980) 'Income, Inequality and Poverty', New York, Oxford University Press
- 51 See Ahluwalia ( 1976) op cit. for the estimate of poverty line based on annual income for a number of the developing countries.
- 52 For the United Nations estimates refer to Paukert, F. (1973). 'Income Distribution at Different Levels of Development: A Survey of Evidence'
- 53 Poverty Gap is defined as

$$\begin{array}{rcl}
 & k - \mu p & \\
 P1 = Po & \text{-----} & \\
 & u &
 \end{array}
 \qquad
 4 \mid$$

where  $k$  is the poverty line income,  $u_p$  is the average income of the poor, and  $u$  is that of the whole population.

- 54 For a critique of this definition see Foster et al (1984); Atkinson, A. B. (1970a). 'On the Measurement of Poverty', *Journal of Economic Theory*, 2.
- 55 Atkinson, A. B. (1976)
- 56 For a useful reference see Atkinson, A. B. (1970a). 'On the Measurement of Inequality', *Journal of Economic Theory*, 2. University Press.
- 57 See Fields, S. G. "Assessing Progress toward Greater Equality of Income Distribution" in *Third World Poverty* by McGreevey, W.P. p. 47-75 (1980).
- 58 Fields op cit p.71.
- 59 In his paper Fields (1980) compared the data collected for India and Brazil and applied the absolute poverty approach to determine poverty alleviation among the poor. The evidence was that during much of the 1960s and 1970s (contrary to views expressed by some on the basis relative poverty approach ) the poor shared in the benefits of Brazilian growth. See p.71-72 for calculations based on data from Brazil and India.
- 60 Sen, A (1982a), 'Choice, Welfare and Measurement', Blackwell, and Cambridge, Mas., MIT Press.
- 61 Sen, A. 1975 - 'Employment, Technology and Development' (A Study prepared for the ILO within the framework of the World Employment Programme, ILO.
- 62 To help define his capability concept Sen combined the various aspects identified by Adam Smith. Peter Townsend and Rawl.
- 63 For a comprehensive mathematical analyses of all inequality indexes including Gini index see Lambert P.J (1989). *The Distribution and Redistribution of Income: A Mathematical Analysis*. Basil Blackwell Inc. Cambridge Mass.



## Chapter Three

### ECONOMIC THEORIES AND MODELS OF DEVELOPMENT

Marx's political economy and 'development economics' perceptions of development will be used as necessary starting point as well as the preferred theoretical approach to the study of poverty and national development. There are three main reasons for adopting this approach. First, the approach will provide the theoretical framework for the assessment of the nature and causes of poverty and the historical origin and basis of the current policy proposals to alleviate poverty in the developing world. Second, the approach will be used as a yardstick for providing answers to the policy failures of the past and the issues of the future. Third, it will provide framework for assessing the extent to which development experts have been able to perceive urban poverty, and the reactions it has aroused among various groups. The above factors are vital to any intelligent assessment and classification of a large number of theoretical issues relating to the developing countries as well as the exact definition of poverty.

#### *Orthodox Economics Theory*

This model, founded upon the analysis of market and private capital is based on the assumption that international trade could develop the backward countries into advanced ones. Thus the global concern for poverty and economic backwardness is not of recent origin. It can be dated back to the nineteenth century when Marx, for example, gave considerable attention to this endemic problem in his analysis of the historical growth of capital and its successive self-transformation. Within this framework Marx noted that as capitalism spread its influence geographically the force of the market was bound to transform backward areas in the same way it had done to the more advanced countries.<sup>1</sup>

Under the above proposition it has come to be assumed that capitalist development (based on the operation of the free market) will result in general prosperity for all participating countries.



No inhibiting factors could prevent this type of development. Indeed, it was believed that this process would be sustained by each country's comparative advantage and specialised contribution to a free world market where restrictions were unknown. Marx himself applauded the progressive achievement of capitalism and in fact thought it was eventually going to lay the basis for transformation to socialism.<sup>2</sup> In support of the above proposition one school of Marx followers have continued to argue that capitalist development should be supported for the same reasons in the countries of the developing world. With the exceptions of certain observable anomalies, Lenin<sup>3</sup> noted that although the process of creating capitalism can temporarily be inhibited, nevertheless, eventual geographical dispersal of industrialisation was unstoppable.

### *Development Economics Theory*

During the Great Depression of the thirties there emerged intellectually and politically radical idea. This new idea was the by-product of the preoccupation of analyses and explanation of prescriptions for government action. The sluggish growth of the international trade shortly after the first world war led to the disillusionment of some people of the potentials of world trade to move the backward economy forward. Increasingly, it came to be assumed that international trade made the problem of backwardness worse. Thus theorists came to accept the fact that capitalism had been transformed to such an extent that it was no longer possible to repeat the process of the dispersal of development that had occurred in the nineteenth century. Since the potential for growth of capitalism was literally believed to have been exhausted, it led to the theorisation of a new branch of economics known as 'development economics'.

Although development economics initially represented an attempt by some Latin American and Eastern European countries to escape from slump, nevertheless the discipline expanded its parameter and attraction with lightening speed. The model eventually came to represent attempts to analyze economic backwardness and causes and the formulation of proposals to overcome it. Since third world countries could no longer afford to await the possible long-term



effects of free trade, its continued application increasingly came to be considered 'as an excuse for complacency and a rationalisation of the wealth of the richest people and countries'.<sup>4</sup> Why was the question of poverty, to be left to the normal working of the world market ?

It is against this background that intellectual arguments in support of government intervention to accelerate growth and reduce poverty lend inspirations. At some point countries (as opposed to sectors and industries) came to be seen as the basic units of the system. Accordingly, each national economy was expected to go through a series of clear cut historical phases as the process of cumulative investment continued in order to arrive at a 'developed' destination.<sup>5</sup> Furthermore, these theories came to identify the existence of certain rigidities in the national economies of backward countries which meant that raising levels of investment could be difficult for most third world countries. Only governments and not free international trade as advocated by orthodox economics could mobilise the resources. Only governments possessed the political power to break through the bottleneck and force the pace of growth. The extent to which these theories influenced economic and social policies in the less developed countries are be examined in this chapter and also in chapter two.

## **Models of Economic Development and Employment**

### *The Classical Model*

Before the 1930's slump traditional Western economics provided some approaches to the employment problems of the Western World. This model - commonly known as classical model - was based on consumer sovereignty, individual utility, profit maximisation, perfect competition and economic efficiency. The realities of the 1930's however necessarily called for an overhaul of the classical traditional approach to the employment problem. The main and early critiques of the classical model were associated with Professors J. Robinson and Edward H. Chamberlain.<sup>6</sup> Basing their theory at the micro level of 'imperfect competition', they became concerned with the market dominated by one monopoly or a few oligopoly sellers of products.



At this level of analysis they found out that resources, including labour, were under-utilised with less total production than when competition was perfect. Their prescription for the removal of imperfection, due to market failures, was based on the need for government to intervene in the economic system to offset the negative output and employment effects of monopoly.<sup>7</sup>

### *The Keynesian Model*

At the macro level of orientation, a group of economists started by focusing on aggregate economic variables which an economy has potential to produce given the necessary inputs and technology. It was this level of orientation that eventually came to be known as the Keynesian theory of national income and employment determination. Their solution to the reduction or eradication of unemployment was based on the need to increase aggregate total demand through direct increases in government expenditure or government policies that indirectly encouraged more private investment, such as tax allowances and low interest rates. The main contention of the Keynesian theory which distinguished it from the classical model was that there was nothing inherent in a market economy to guarantee that the actual level of national income would be expected to exactly equal its potential full-employment level. It all depended on the level of total aggregate demand.<sup>8</sup>

Both the classical competitive and the Keynesian models were widely considered to have limited relevance to the countries of the Third World. The former was considered to have certain inherent limitations to the realities of the Third World countries in that it offered little insight into the realities of wage and employment determination. On the other hand the Keynesian model was criticised on two major fronts.

First, the assumption that firms and farms could respond quickly and effectively to increases in the demand for their products by rapidly expanding output and employment was rejected. In



most Third World countries, it was argued, the major bottleneck to higher employment levels was not sufficient aggregate demand but structural and institutional constraints on the supply side. The critics of the Keynesian model argued that in the Third World there were shortages of capital, raw materials, intermediate products, skilled and managerial human resources, combined with poorly functioning and insufficiently organised commodity and local markets, poor transport and communications, shortages of foreign exchange and import dominated consumption patterns among the rich. All these combined to militate against the simple notion that expanded government and private demand would be effective measures reducing unemployment (and poverty) problems in most Third World countries.<sup>9</sup>

Second, the relevance of the Keynesian model to Third World countries was also criticised from the point of view of supply of labour to the urban industrial sector. It was maintained by these critics that the creation of additional modern urban jobs by increasing aggregate demand might in fact result in the attraction of many more additional migrants from rural to urban areas where manufacturing industries were often located.<sup>10</sup> Because of the higher urban wage relative to rural every urban job created might, for instance, induce three or four new job seekers to migrate from the countryside.

### *Neo-Keynesian Model*

This was a natural extension of the 'static' Keynesian model which aimed to provide an economic development model for the majority of Third World countries. During much of the 1950's and 1960's, an economic development strategy based on the 'stages of economic growth' theories gained considerable attention from economists and policy makers interested in the problems of Third World countries. The basic principle behind this thinking was founded mainly on the concept of successive 'stages of economic growth' in which the process of development was seen as a series of successive stages through which all countries must pass. It was primarily an economic theory of development in which the right quantity and mixture of



saving, investment and foreign aid were all that was needed to enable Third World countries to proceed along an economic growth path pursued by the more developed countries.

According to Rostow<sup>11</sup> (one of the first proponents of this view) the transition from underdevelopment to development could only be described in terms of a series of steps or stages through which all countries had to proceed. One of the principle 'tricks' of development necessary for any take-off came to be seen in terms of the mobilisation of domestic and foreign savings in order to generate sufficient investment to accelerate economic growth. It was in this setting that development became synonymous with rapid economic growth.

The above view was given further expression and elaboration by prominent Harrod and Domar.<sup>12</sup> During their time the basic economic argument centred on capital mobilisation and not income inequalities. It was assumed that personal and corporate incomes were necessary conditions of savings which made possible investment and economic growth. They saw wide inequalities as necessary conditions of maximum growth and maximum growth in turn as conditions of rising standards of living for all. Accordingly, it came to be assumed that national and per capita incomes would have to be high enough in order to make sizeable redistribution of income through government measures such as taxation, and subsidy programmes. Redistribution of income was therefore not to be attempted until such time was reached. Any premature attempt to do the contrary would only significantly serve to lower the growth rate thereby delaying redistribution.

### *The Harrod-Domar Model*

During the 1950's and 1960's this model of development (which came to be popularly known as the 'Harrod-Domar Model') gained increased popularity among most Third World countries' development plans. Indeed, using this as a yardstick for development, the 1960's and 1970's were dubbed the 'Development Decades' by a resolution of the United Nations.<sup>13</sup> Under this



resolution development came to be conceived largely in terms of the attainment of a 6 per cent annual target rate of GNP or the use of growth of per capita GNP. In fact economic development increasingly came to be seen in terms of the planned alterations of the structure of production and employment.

By the end of the 1960's the above recommended model of development for the Third World countries came under scrutiny and was seriously questioned. This necessarily led to the emergence of a new orthodoxy which attempted to combine economic and institutional factors into a social systems model of international development and underdevelopment. This alternative approach came to be known as the 'International-Structuralist' model of development. It viewed Third World countries as being beset by a variety of institutional and structural economic rigidities and caught up in a dependent and dominant relationship to rich countries.

From this time onwards the development of the concept of dependency with its opposition between core and periphery intensified. The emphasis on dependency also gave rise to the concept of dualism which represented different sets of conditions in which some were 'superior' and others 'inferior', coexisting in a given space and at the same time.<sup>14</sup> While this coexistence was regarded as chronic and not transitional (that is, something that could not be eliminated) others saw it as something that could be remedied.

Myrdal<sup>15</sup> was one of the most vocal neo Marxists who challenged the efficacy of the Western traditional models of development in the developing countries. He observed that international inequalities between advanced and underdeveloped countries were widening and maintained that traditional equilibrium theory could not explain this result. He felt that the classical static model's view of the adjustment process was applied in a deductive way to the modern world and failed to explain the widening inequalities in underdeveloped countries because they failed to be true in a number of empirical respects. Thus, observed Myrdal, the world is not 'laissez



faire and purely competitive' and more important, social and political factors unevenly assist development.

Myrdal further stressed that 'equilibrium' is not 'natural' and that a closer description of reality would be to describe the relative developmental process in terms of the vicious 'circularity' and 'cumulation' of cause-and-effect. A country embedded in relative poverty will be unable to lift itself out because its adjustment processes are weak; 'a vicious circle between', for example, 'ignorance, low incomes, low rates of saving and political dishonesty' will cause domestic efforts to fail if they arise from the stimulus of the market economies. This assumed that under the forces of 'free trade' such countries could not overcome these embedded factors.

Myrdal further explained that the possibility of cumulative movements was more likely to raise hopes while rises in income could permit increased expenditure on education which might have effect, itself, on income. The process thus becomes that of an economic multiplier.<sup>16</sup> Myrdal therefore advanced two ways in which such a process could be achieved. Firstly, 'shocks' could be provided to the vulnerable parts of the economic and social structure resulting in dramatic new social investment. Secondly, he called for the need to strengthen the spread effects which transmitted the original impulses throughout the economy and were relatively weak in a backward country by, for instance, creating a class of entrepreneurs or a pool of skilled workers.

Another rejection of the traditional economic model was echoed by H. Broeke.<sup>17</sup> He explained backwardness of the underdeveloped countries primarily along historical lines. According to Broeke, dualism could be introduced whenever there was an importation of capitalist methods into a pre-capitalist economy. For example, one sector might become technically advanced and dominated by foreign capital and/or ideas, while the other sector might appear 'pre-capitalistic' in the sense that 'workers and risk-takers do not appear to respond positively to increases in their opportunities'. Therefore, observed Broeke, Western aggregate methods of development



'are inappropriate and sectors will have to be dealt with individually' if policy was to work.

In sum, the neo-Marxists rejected all the Western economic models discussed above firstly, because of the assumptions that the rich in the Third World countries do not necessarily save and invest significantly larger proportions of their incomes than the poor. A growth strategy based on sizeable and growing income inequalities was therefore believed to be nothing more than an opportunistic myth designed to perpetuate the vested interests and maintain the status quo of the economic and political elite of Third World nations.<sup>18</sup> This phenomenon, it was argued, was often at the expense of the great majority of the general population. Secondly, it was argued that the low income and low standards of living of the poor might result in poor health and nutrition and education, further effect of which might lower economic productivity and slower-growing economy.

Although the International Structuralist acknowledged the impressive growth rates of industrial output in many Third World countries they were, however, not impressed with the poor performance in terms of employment growth rates and the manner in which wealth was distributed. This necessarily called for the need to increase 'total' factor productivity.<sup>19</sup> Thus, from the late 1960's the desire to create jobs and to redistribute wealth became the preferred strategy of development. The remaining sections analyze the various models specifically aimed at the employment and income inequality problems.

### *Lewis-Fei-Ranis Model*

The period 1960 to the late 1970s witnessed enormous empirical literature on migration behaviour in the third world countries. During this period efforts were made to offer explanation of migration by the application of partial-equilibrium models. These efforts represented a test of economic rationality especially as it relates to the human capital. Specifically tailored to answer such questions like - do third world households respond to



economic incentives in selecting employment locations, the Lewis-Rei-Ranis model was advanced.

This was one of the best known employment models relating specifically to the developing countries. Originally formulated in 1954 by W.A. Lewis, it was formalised in 1961 by Professors Gustar Ranis and John Fei. The basic idea of this model was a view of the developing countries economies as consisting of two sectors: a traditional agricultural sector, characterised by zero or very low productivity surplus labour; and a high productivity modern urban industrial sector.<sup>20</sup> The model focused on four main issues namely: the process of labour absorption; the growth of employment in the modern sector; labour transfer and the urban employment growth brought about by increase in output expansion in the modern sector made possible by the excess of modern sector profits over wages; and the level of wages in the individual sector was assumed to be constant and determined as a fixed premium over the subsistence level of wages in the traditional agricultural sector. By this Lewis assumed that urban wages would have to be at least 30 per cent higher than average rural income to induce workers to migrate from their home areas.<sup>21</sup> Equally the model postulated that the process of modern sector growth and employment expansion was assumed to continue until all 'surplus' rural labour was absorbed in the urban industrial sector.

Lewis' model was criticised for being simple and limited to the historical experience of economic growth in the Western world. More specifically the model had three key assumptions which were sharply at variance with the reality of the developing countries.

Firstly, the model implicitly assumed that the rate of labour transfer and employment creation was proportional to the rise in capital accumulation which implied that the faster the rate of capital accumulation the higher the growth rate of the modern sector and the faster the rates of job creation. This was challenged on the grounds that what if the surplus capital profit was reinvested in more sophisticated labour saving capital equipment rather than just duplicating the



existing capital as assumed in the model.<sup>22</sup>

Secondly the model assumed that 'surplus' labour existed in the rural areas while there was full employment in the urban areas. Recent research has indicated the reverse to be the case in many third world countries - that there is substantial open unemployment in the urban areas with almost no general surplus labour in rural areas. Finally the notion of the continued existence of constant real urban wages until that of the rural surplus labour was exhausted was also criticised for being at variance with reality. The true situation is that wages rise substantially both in absolute terms and relative to average rural incomes even in the presence of rising level of open unemployment. Because of the above overt assumptions it came to be concluded that the model offered little analytical and policy guidance for solving third world employment problems.

### *Harris-Todaro Model*

In 1969 Michael Todaro raised another issue, one that influenced much of the research in the 1970s. In an effort to understand migration behaviour Todaro asked 'if migrants are rational, why do "wage gaps" between urban and rural areas persist and why does migration to the city continue in the face of the urban unemployment or low-productivity underemployment or even absolute labour redundancy in the economy?'<sup>23</sup> These questions were intended to deviate from the previously held simplistic explanations such as the "bright light" of the city acting as a magnet to lure peasants into urban areas.

Both Harris and Todaro observed that in the third world countries during the 1960s, there were encouraging signs of good economic performance. Regrettably, marginal products in agricultural and urban unemployment were unimpressive. Rural-urban migration had not only continued, but intensified in magnitude. The inability of (or dissatisfaction with the conventional models - with their singular dependence on the achievement of a full employment

equilibrium through appropriate wage and price adjustment) was questioned for lacking adequate analytical model to account for the unemployment phenomenon.

In response to this gap Harris and Todaro offered an alternative perspective based on a simple thesis namely: 'migrants do not respond solely to the current earnings differentials but rather to expected earnings differentials'. The expected earnings was defined as the product of the actual wage and the probability of securing a job.<sup>24</sup>

The expected earnings, argued Todaro, were conditioned by migrants' expectations of securing jobs in the favoured urban formal sector. This model, which came to be known popularly as the Harris-Todaro model based on East African experience, was a divergence from the usual full employment flexible wage-price models of economic analysis. Essentially, they formulated a two-sector model of rural-urban migration which recognised the existence of a politically determined minimum urban wage at levels substantially higher than agricultural earnings. The key premise of this model rested on the assumption that the immigrants accepted informal service sector employment or unemployment at a wage below that prevailing in the rural area so that the migrant might remain in the urban labour queue, hopeful for employment in the formal high-wage sector.

The model postulated relatively easy movement of workers from the informal to the formal sector after a period of waiting as well as maintaining the view that rural-urban migration was a continued process as long as the expected urban real income at the margin exceeded real agricultural product. The distinguishing feature of the model was the assumption that migration proceeded in response to urban-rural differences in expected earnings, with the urban employment rate acting as an equilibrating force. Migration was however to stop when the urban wage was equal to the wage in rural areas.



Harris and Todaro viewed unemployment as a kind of investment that the migrants were prepared to shoulder in the hope that higher stream of earnings would come to them in the future. However, during the stay of migrants in the cities searching for a formal job they had the option of earning something in the informal sector where entry was relatively easy. Meanwhile, the supply of labour to the informal sector would continue to increase because of the higher wages in the formal sector. The urban informal sector was thus viewed not only as a kind of reserved army of labour force, or those on the job waiting list while they seek a better job in the formal sector but also as a contributor to over-urbanisation. The message of this model is that the relatively high wages in the formal urban sector were responsible for over-urbanisation.

The policy implication of this model would be that any attempt to reduce unemployment in the urban economy would be self-defeating as long as wages in the formal sector remained high. An increase in the rate of job creation in the formal sector, for instance, might increase the probability of getting a higher-paying job but might also cause more immigration, a higher rate of unemployment, and lower earnings in the formal sector. Basing their judgement on the grounds that creating more employment in towns would increase rather than reduce urban unemployment, Harris and Todaro concluded that in order to reduce urban unemployment, rural opportunities and amenities must be improved. Only then might the drift to towns be reduced. This represents the opposite case of Lewis' model already discussed above.

Empirical evidence so far has since cast doubt on Harris-Todaro's model. Evidence collected suggests that observed nominal wage gap is largely a reflection of skill, age, sex and occupational differentials rather than wage gaps per se.<sup>25</sup> Empirical evidence now confirms that wages in the informal sector vary considerably and that many of the workers do not seek to enter the formal sector since they expect to find greater rewards in the informal sector, that is, through some kind of entrepreneurial activity.



In his contribution to this debate Hart<sup>26</sup> observed that wage incomes are only part of the urban opportunity structure and therefore need not think that all of those who enter informal sector occupations do so as a result of failure to obtain a waged job. Basing his argument on empirical research conducted in Ghana Hart maintained that the magnetic force of the town may be derived from the multiplicity of income opportunities rather than merely from wage levels. A decision to come to the city, added Hart, 'would then have an objectively rational motive if, despite the parity of formal employment opportunities and low ceiling to wage remunerations, the migrant could look to the prospect of accumulation, with or without a job, in the informal economy of urban slums'. Against this background, Hart concluded that the informal sector served valuable social purposes, particularly in providing goods and services for the poor.

Later in this chapter, the significance of the informal sector, its different conceptualisation and importance will be comprehensively discussed. Meanwhile it is helpful to remark that although Lewis and Harris-Todaro models were severely criticised, both have in common the view that the remedy of the problems of one sector lies in action in another sector. While on the one hand Lewis model emphasised two major elements of the employment problem namely: the structural and economic differentials between the rural and urban sector as well as the central importance of the process of labour transfer between them; Harris-Todaro's model on the other hand emphasised the existence and growing importance of the urban informal sector albeit from an entirely different perspective.

### *Redistribution with Growth Model*

In the late 1960's the International Labour Organisation (ILO) rejected both the traditional Western and Stalinist models of development. In an attempt to replace these models, the ILO embarked upon a long-term research programme with the aim of increasing employment through more labour-intensive forms of production.



In the beginning, the ILO's Employment Policy Convention No.12227 spear-headed the search for an alternative strategy. The eventual launching of ILO World Employment Programme (WEP) led to the commissioning of a series of country studies aimed at analyzing employment problems and the strategies to cope with them. The reports of various missions noted that persistent poverty and unemployment, despite rapid economic growth, was identified as the consequence of structural imbalances in the system, identified as between rural and urban sectors and between the 'modern' industrial wage sector and the 'traditional' non-wage sector.<sup>28</sup>

It soon came to be established that social justice and a fair distribution of the benefit of growth were needed and were in fact, conditions for eradicating unemployment. This alternative way of thinking was the consequence of a redefinition of the concept of employment. The Colombia<sup>29</sup> and Kenya<sup>30</sup> reports were decisive, leading to a characterisation of unemployment as a problem necessitating specific solutions and resulting in the identification of 'target groups'. The ILO WEP concluded that because of the inadequacy of general developmental policies to alleviate the poverty experienced by large sections of the population, there was a crucial need to focus research projects on specific 'target groups'. The most important category identified for action was the informal sector.<sup>31</sup>

Empirical evidence from Kenya, for instance, indicated that in addition to people who did not earn income at all there was another who earned very little. These were identified by the mission as the 'working poor' - a group of people who earned income of some kind, be it intermittent or for low returns.<sup>32</sup> Based on this, employment problems came to be seen as closely related to inequalities in income and opportunities which were not merely among their consequences but among their causes as well. Although the ILO WEP country studies played a crucial role in the development of strategies to cope with unemployment and the 'working poor' the theoretical and policy recommendations were criticised on a number of grounds.



### *The Critique of Redistribution with Growth (RwG) Model*

Leys (one of the critics of the RwG strategy) strongly rejected the model because of its political assumptions which represented an incorrect interpretation of the situation. He rejected it because it lacked a theory which could relate economic and political forces to each other. Leys believed that the idea of economic change without political change was invalid. This, according to him, was because in a capitalist society the distribution of political power reflects, and also underwrites, the distribution of economic power. The ILO reformist approaches were further criticised on the basis that they were on such a scale that 'there was no likelihood of these recommendations being adopted in their entirety except through a revolutionary process'.

Leys also criticised the policy recommendations for emphasising major policy objectives aimed specifically at the unemployment problem rather than of economic growth per se, while making rapid GNP growth an essential requirement. In many respects the RwG model was considered not to have differed fundamentally from the 'accelerated growth' model. Leys concluded by suggesting that unless a theory that could show how the distribution of both could be altered progressively in favour of those who are poor or weak, any general package of measures for redistributing economic power alone seems unrealistic and inconclusive.

### *In Defence of Redistribution with Growth Strategy*

In an attempt to defend the RwG strategy of development, Jolly<sup>33</sup> accepted the imperfection of the model. He agreed that it was not an adequate theory of income distribution which explained why the poor remain poor. He noted however, that it was an attempt to explore the issue and to provide analytical tools for quantifying what happened and what may be predicted to happen in future planning policy. Jolly nevertheless maintained that a trade-off between growth and distribution was possible under the existing political set up. Strategies to achieve RwG were therefore viewed to be economically efficient.<sup>34</sup> Within the framework of a 'progressive modernisation' model, Jolly concluded that RwG has a place in the development of a theory as to how to change the distribution of income and alleviate poverty within the



existing capitalist structure by social democratic measures.

### *The Informal Sector Concept*

Despite the ensuing debate the ILO adopted the target group approach to development. Thus the crucial role of the informal sector in generating employment in the city resulted in the decision to examine specific target groups defined in terms of small individual enterprises. The informal sector concept, originally introduced by Keith Hart<sup>35</sup>, was simply based on a distinction between income generating opportunities of wage earners and self-employment. His interest largely centred on whether or not labour was recruited on a permanent and regular basis for a fixed reward. His concern for the 'unorganised' sector of the economy soon prompted wide-scale reaction, leading to reappraisals of the role and function of small scale activities in the cities of the developing countries and the reassessment of employment strategies and proposals.

The concern with the problems of 'labour absorption' - the slow rate at which increases in Third World city working age population were being absorbed into productive employment - Mazumdar<sup>36</sup> and Weeks<sup>37</sup> identified external factors in the informal sector to be responsible. Both were dissatisfied with the descriptive models (as advanced by Hart and ILO) and labour absorption to provide adequate policy recommendations.

Within the framework of economic dualism, Mazumdar identified the market forces and institutional arrangements as the major factors that limited labour absorption. Mazumdar saw the urban economy to be divided into two: 'protected' and 'unprotected'. According to him, employment in the formal sector was protected by government or other institutional arrangements so that the wage-level and working conditions in this sector were not available, in general, to the job seekers in the market, unless they managed to cross the barrier of entry somehow there was no hope of their being employed in the protected sectors. And since

workers in the restricted sectors enjoyed better fringe benefits, working conditions and job security than those in the 'unprotected' sectors whatever the productivity of the latter in real terms, it competed poorly in financial terms with the 'protected' sector. Meanwhile, the growing importance of the service industries in the process of urbanisation would continue to sustain a large part of the informal sector.

Policy measures advocated by Mazumdar aimed to increase artificially restricted demand for relatively unskilled labour, thereby checking the existing downward pressure on wage rates and limited employment opportunities. This concept was utilised in a number of the Urban Poverty Task Force reports.<sup>38</sup>

Weeks'<sup>39</sup> model was dualist and stressed factors external to the character of the enterprise to base his two sector distinction. The formal sector, according to Weeks, included government activity itself and all the private sector enterprises which were officially recognised, nurtured and regulated by the state. Numerous measures, which restricted competition and thereby reduced risks and uncertainty, fostered formal sector economic operation. On the other hand, the informal sector was characterised by an absence of such benefit. The formal sector was largely foreign-owned and capital intensive with imported technology and sophisticated intermediate goods and market.

The informal sector on the other hand was characterised by small operations, labour-intensive techniques, low income levels and indigenous ownership.<sup>40</sup> Weeks, unlike Mazumdar and others placed particular emphasis on the structural position of each sector in the economy. This enabled him to include within the model the crucial question of the growth generating role of the informal sector. He therefore sought to establish the specific condition under which the small-scale sector was an agent of positive (income-raising) economic change.<sup>41</sup>



Weeks' development policy was based on government measures designed to redirect final demand towards the informal sector. This would generate a more equal distribution of income because of its employment promoting impact. Governments of the Third World countries were therefore encouraged to patronise the informal sector by purchasing goods and services made by them. On the relationship between formal and informal sector Weeks maintained that:<sup>42</sup>

'because formal sector wage earners in most less developed countries earn on average much more than the majority of the labour force, an increase in their wage would worsen the distribution of income. This would, over time, induce a shift in the pattern of demand from informal sector products, intensifying the wages differentials which generate a dual industrial structure.'

### *Critique of Informal Sector Concept*

Although the informal sector concept was advanced with particular clarity by Weeks especially as it relates to growth, the model was questioned for lack of adequate theory and above all in relation to the sector's ability to generate economic growth. As a result the practical utility of the related policy recommendations was challenged on a number of grounds.

During the 1970's and a greater part of the 1980's the concept of the informal sector was popularised by a number of policy makers and researchers in different disciplines and countries. Its utility and the diversity of empirical data resulted in complete confusion about what was actually meant by the informal sector. Moser<sup>43</sup> noted that at different times, it was regarded as synonymous with the urban poor, or with people living in slums or squatter settlements; or with the immigrant population of cities. Such a wide usage of the concept:

'resulted in great confusion concerning the identification of the 'target group' which have included heterogeneous sets of activities and people without an identifiable or analytically useful common characteristics'.<sup>43</sup>

Similarly, Little<sup>44</sup> and others concluded that they did not find the informal sector concept to be of either analytic or operational value.



The identification of a continuum of productive activities in the cities of developing countries and the empirical descriptions of the complex linkages and dependant relationships between production and distribution systems, resulted in a dissatisfaction with any two-sector division of the urban economy. In this respect it was put forward that the conceptualisation of the urban economy in terms of a continuum of productive activities rather than a dualist structure could provide a more explanatory framework for understanding the urban economy of Third World countries.<sup>45</sup>

The petty commodity approach to understanding the urban economy was equally criticised by Lloyd.<sup>46</sup> He noted that although the 'petty commodity sector' was a little more precise and used strictly to denote producers of commodities, it however omitted the providers of services - as in most cities trades outnumber artisans. Lloyd further noted that because petty commodity approach was used loosely as a synonym of informal sector, it shared the lack of precision of the latter though it did benefit in emphasising the subordinate position of the sector.

### *Schumpeterian Model*

During the 1950s there emerged some economists who argued that standard competition economic models such as the neoclassical or static did not require entrepreneur solution. Under the neoclassical model of the firm, the optimum in well-defined problems (with variables clearly specified) was the typical analysis associated with the model. Variables such as inputs, outputs, prices and markets did not require any entrepreneur role to maximise their utilisation since profits were assumed to be able to be predicted ordinarily by managers and others. The problems of marshalling resources and turning them into outputs was regarded as trivial and therefore there was the need to emphasise the importance of entrepreneur in the process of economic growth.<sup>47</sup> This view of economic growth was however rejected by others such as Solow, Massel and Denisson<sup>48</sup> who suggested that factors other than the growth of inputs explained a discernible portion of economic growth. Against this backdrop the residual factor



in growth identified as 'technical change' began to receive fuller explanations.

One of the economists who deviated from these was Schumpeter who remarked that innovation was responsible for technical change and that the entrepreneur could in fact be the catalyst for part of the growth of inputs. There were others who also saw an entrepreneur as one who bore the responsibility and consequences of making decisions under conditions of risk or uncertainty. But the concept most relevant to economic development was that of Schumpeter whose entrepreneur was an innovator.<sup>49</sup> Schumpeter saw the story of economic progress as not just one of the inventions (that is the devising of new methods or products) but one of innovation. Any explanation of economic growth therefore necessarily needed to emphasise innovation and not invention.

Schumpeter linked innovation to the entrepreneur and maintained that the source of private profits was successful innovation. He also contended that innovation brought about economic growth. By this Schumpeter saw an entrepreneur as a heroic figure in economic development - 'a man who, with his dream and will to found a private kingdom, to conquer adversity, to achieve success for its own sake, and to experience the job of creation'.<sup>50</sup>

### *The Model*

To help illustrate his argument Schumpeter designed a simple model based on certain assumptions namely: perfect competition, full employment, absence of capital accumulation and no technical change. The model consisted firstly of a circular flow, like a stationary state which had an unchanging economic process and merely reproduced itself at constant rates in a closed domain. In this circular stationary economy was the absence of innovators and entrepreneurs which assumed that entrepreneurial function was not required since the ordinary routine work, the repetition of orders and operations could be done even by workmen.<sup>51</sup> Under this preliminary stage, there might be high earnings from managers, monopoly gains, windfalls, or



speculative gains.

The second stage of the model represented the entrance of an entrepreneur into this circular stationary economy. As soon as an entrepreneur entered, and because of what he was, he became motivated by profits, which introduced innovation consisting of new production function. This had the tendency of raising the marginal productivity of the various factors of production. These innovations might, for instance, involve the construction of new plants.

As soon as the entrepreneur entered the circle, profits became the premium for innovation, that is, innovation became the source of profits. This is unlike the first stage where profits are not made but monopoly gains and windfalls. Without the entrepreneur, there would be no profit. However, innovation sets up only a temporary monopoly gains which can quickly be wiped out by imitation. For profits to continue, it became necessary to keep one step ahead of rivals with innovations. This implies that the circular flow in the first stage requires to be broken down by the entrepreneur from time to time, for example through the creation of bank credit. The wave of entrepreneurial activity not only forces out old firms, but exhausts the limited possibilities of gain from the innovation. As borrowing diminishes and loans repaid entrepreneurial activity tends to slacken and finally ceases.

In Schumpeter's model it was the entrepreneur as an innovator that was at the centre. This approach helped Schumpeter to explain the working of other variables in the system. Equally significant was the assumption that the differential rates of innovation and credit creation were the basis for Schumpeter's theory of the business cycle. Accordingly, the innovation, together with credit creation and saving gave rise to economic growth. Schumpeter, however, admitted certain shortcomings in his model. He observed, for instance, that the model was based on some very specific institutional assumptions and specific historical context. It also presupposed a capitalist society with private property, private initiatives, money and banking system, a spirit of industrial bourgeoisie, and a scheme of motivation characterised by the



nineteenth century in advanced economics prior to the era of trust.<sup>52</sup>

Like other economic models, the Schumpeterian theory has been considered to have certain limitations in the developing countries. While there has been a renewed concern for the lack of entrepreneurs in the developing countries in the past decade, the theory is purported to have validity only in capitalised economies prior to the rise of giant corporations.<sup>53</sup> Since many industries in the developing countries are dominated by a few large firms with foreign links, the appropriateness of the model in the developing countries becomes questionable. Further more, in a world of high competition, an established organisation will frequently have an advantage in the development of new techniques, markets, products and organisation.

Schumpeter's concept of the entrepreneur was equally criticised for being somewhat limited in the developing countries especially against the evidence that majority of indigenous Schumpeter entrepreneurs are traders whose innovations are mainly the opening up new markets.<sup>54</sup> It was also observed that people with technical, executive and organisational skills may be too scarce in less developed countries to be used in the developing new combinations in the Schumpeterian sense. This implies that fewer high level persons are needed to adapt combinations from economically advanced countries. The relevance of entrepreneurs in economic growth and development, as important as it is, will be considered in the final chapter of this thesis.

### *Recent Trends*

At the dawn of the macro-economic crisis in Africa in the last decade, the former OAU Secretary-General, Edem Kodjo noted:

'If the balance sheet of the last twenty-five years of development is drawn up, the results for Africa are far from encouraging: 18 out of the 25 poorest countries are in our continent, and a

high proportion of the 800 million individuals living in absolute poverty are to be found among us. Agriculture and food production is insufficient as regards both its quantity and quality. For every thousand children born, 400 die of starvation or malnutrition...'56

In a similar response to the developing countries macro-economic crisis, the World Bank<sup>57</sup> reported that the crisis was characterised by slow economic growth, rapid population increases, poor agricultural production and balance-of-payments and fiscal crisis. The report also noted that the crisis was particularly acute in the low income sub-Saharan countries where the annual growth rate was in most cases below 1 per cent and with virtually all countries showing declines in the average index of food production per capita.

The above exposition clearly provides sufficient evidence to conclude that the number of poor has been growing rapidly in most countries. It is also clear that with regard to income inequality there is evidence that it does pose a threat for a healthy economic growth of the developing countries. This situation necessarily called for some form of measures to be taken to improve the quality of life of a vast majority of the urban labour force. It was this concern that led Bromley<sup>58</sup> and others to remark that any government which was concerned with the opinion of the mass of the people, that is, not only of the wealthy and often foreign elites, must at least appeared to address its policies towards the activities of the masses.

An attempt to provide an explanation for the situation in the developing countries resulted in confrontation between neoclassical economists and development economists. First, the neoclassical economists blamed the development economists for causing the crisis by, for example, ill-advising governments in Africa to interfere with pricing policies in the agricultural sector and land use policies in urban areas.<sup>59</sup> This action, as it came to be argued, placed considerable constraints on the entry of large firms into labour-intensive activities. Similarly, Lal<sup>60</sup> noted that credit subsidies to large enterprises by countries of Africa led many small enterprises to adopt relatively capital-intensive techniques. These protectional measures



increased capital intensity of production which all combined to reduce the growth of efficient use of labour in the formal sector. The World Bank also blamed the development economists (as advisors to the governments of Africa) for the shortcomings of the 'trickledown' approaches to poverty reduction and the various urban poverty projects. The Bank noted that such policies were undermined by the sectoral and macro-economic policies of most governments of Africa.<sup>61</sup>

Against this background the neoclassical economists and the World Bank gave priority to the production of export crops over food crops and also recommended the marketing of produce privately or through cooperatives to make it more efficient. As for industrial development, the World Bank's view was that heavy capital-intensive industries were generally, unsuitable to the small African market size. The most important thing was the need for governments of Africa to embark on a more neutral trade regime and ensuring that prices were kept right. This process could ensure the flourishing of the market with new jobs and renewed investment from abroad. According to Lal, the single most important means of alleviating poverty was by introducing a policy which raised the demand for unskilled labour by "getting the prices right". Lal, however, dismissed the case for alleviating poverty through redistribution of income and productive assets. For him, redistribution of income can become more equal at the same time that the level of income of all groups declined.

Similarly the Brandt Commission placed great emphasis on the need to ensure that development brought about the relief of poverty. The poor, the report added, 'must gain directly from growth and participate fully in the development process.' Overall, economic development was perceived in terms of its being accompanied by policies 'to prevent the new economic power and wealth being concentrated in the hands of a small minority'.<sup>62</sup>



In the particular case of Nigeria it will be observed in chapter 6 that in October 1985, the Federal Government declared a 15 month economic emergency period during which specific proportions of workers' salaries and companies profits were compulsorily paid to government. And from mid 1986, the government adopted the IMF and World Bank supported Structural Adjustment Programme (SAP). The aim of SAP was to effectively restructure the consumption and production patterns of the economy, eliminate price distortions and reduce heavy dependence on export of crude oil as well as imports of consumer and producer goods. Earlier in January 1986, about 80 per cent of the subsidy on petroleum products was removed.

Throughout the period of SAP, the majority of Nigerians experienced severe hardships. Unemployment, for example, rose from 6.1 per cent in 1985 to 7.0 per cent in 1987. Equally significant was that the various austerity measures drastically reduced the supply of raw materials and spare parts to the import-dependent manufacturing sector, leading to extensive plant closure, substantial drop in capacity utilisation and retrenchment of workers. With investments in both the public and private sector shrinking, the prices of many essential commodities rose. External debt outstanding also rose to over US\$18 billion out of which \$5 billion represented trade arrears. With the annual inflation rates rising to over 30 per cent and a sustaining misery index of about 40 units, it became necessary to review the success of SAP.

### *Response*

Against this background, it became increasingly evident that macro-economic and structural adjustment policies did not have welfarist component. Although the 1980's witnessed urban-rural migration in Nigeria<sup>63</sup>, the majority of urban poor continued to suffer in the wake of the shocks. Shifting demand for labour and transitional unemployment, for instance, reduced urban real incomes. Regrettably, restrictive monetary and fiscal policies affected the urban poor most through contractions in urban markets. As more facts became known, it was accepted that wages adjusted much more slowly than prices of goods and services. Adjustment



and currency devaluation combined to reduce labour absorption and the imposition of upward pressure on import prices. This, together with fiscal reform, in terms of real increases in tariffs, affected the urban poor disproportionately. Cuts in public services during the adjustment period also affected the poor most.

The above situation resulted in the need to find ways to alleviate the growing incidence of urban poverty and in effect improve equity. From the mid 1980's the challenge of urban planning efforts were intensified to find an appropriate strategy to stimulate the demand for urban labour. Poverty reduction came to be seen as possible in part through improving productivity at the individual, household, firm, and urban levels. As partly examined in chapter three, this approach would involve directly increasing the labour intensity of productive investment. Whatever this meant, the need to increase the demand for the labour of the urban unskilled poor through government support for labour intensive productive activities, was greatly emphasised during the second half of the 1980's.

This renewed focus on the urban poor was strengthened by empirical findings provided by Anderson and Khambata<sup>64</sup> in the Philippines that insufficient demand for unskilled labour did result in a fall in real wages. Strategy to alleviate urban poverty required the need for planners to distinguish those groups that have suffered from the transitional impacts of adjustment programmes from those affected by the longer term problems of access to services and low productivity.<sup>65</sup>

Since, at the macro-economic level, experience had revealed that continued government protection of domestic industries increased capital intensity of production, with the consequence of fewer employment opportunities being generated for the poor, attention began to shift in favour of the development of small scale enterprises. The next chapter analyses the growing significance of small scale enterprises and the history and role of the subsector in the Nigerian economy. Attempts will be made to establish why some planners and economists are

increasingly arguing in favour of the development of small enterprises. The following questions will also be attempted: What are the roles and contributions of small enterprises in any given economy ? Are small enterprises likely to make any significant contribution to the reduction of poverty and unemployment in Nigeria? A preliminary attempt will be made by examining the history, growth and contribution of the sub-sector to the Nigerian economy. It is against this backdrop that the research hypotheses will be stated.

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- 3 Ibid, p.20.
- 4 Ibid.
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- 6 These critics (from England and America respectively) almost independently of each other, developed the theory of 'imperfect competition' at the micro level, to explain the nature and implications of markets dominated by monopoly or oligopoly sellers of products by one or more purchaser of resources.
- 7 This is a question which has continued to worry most countries of the developing world - whether or not governments should intervene in the process of development. The significance of this is considered in the subsequent sections.
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details of these issues should consult the various ILO publication starting from 1970.  
 28 For a full account of the reports see Paul Bairock (1973) and various ILO country and  
 city missions. For example the study of Abidjan (ILO, 1975a), The Calcutta  
 study (ILO, 1974b), The Columbia experiment - Jakarta, The Sao Paulo (ILO, 1976b)  
 29 ILO, 1970; 1971.  
 30 ILO, 1972b, p.9.  
 31 This was identified as the urban sector of the economy outside the official recognition  
 by government.  
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 36 Mazumdar, D. 1975.  
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 Some of the measures included a wage freeze in the protected labour market until wages  
 outside it had increased to the same level.  
 39 Weeks' conceptualisation of the urban economy was that based on the formal/informal  
 sector distinction. See for example Weeks, 1973.  
 40 This implies that the different characteristics of the production processes were  
 determined by the structural position of the economic operator. Interested readers  
 are advised to refer to Weeks' work for the detailed distinction.  
 41 It was this positive and dynamic considerations for the small sector that gave great  
 impetus to the further chain of debate regarding the role and place of small  
 enterprises in a given economy.  
 42 Little et al, 1988.  
 43 See Development Planning Unit Working Paper No.3 for a more comprehensive



discussion by Moser on this topic.

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53 This is a fact admitted by Schumpeter himself.

54 This is one of the limitations earlier identified by Schumpeter himself.

55 This is a view expressed by Natziger, 1986 p.7-8. A contrary view has been put forward by John P. Powelson (1977) in which he interpreted the supply of entrepreneurs - both small and medium scale businessmen and industrialists - arising primarily from the class of street merchants and petty tradesmen. Only those engaged in selling businesses in the third world situation are in the position to earn incomes sufficient to accumulate savings and develop 'the complex balance of credit relationships' which provide access to other funds. He also observed that the government wage policies meant that entrepreneurs and government employees were unlikely to constitute a class of schumpeterian entrepreneurs since earnings are generally low for these workers and highly restricted in terms of social mobility. For a more detailed discussion of this concept see Powelson.

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## Chapter Four

### THE SMALL SCALE ENTERPRISE DEBATE

This chapter sets out to analyze the growing importance of small scale enterprises (SSEs) and to preliminarily establish the dynamism of SSEs and the possibility of relying on them to reduce poverty and unemployment in developing countries.

#### *The Growing Importance of SSEs*

In the past, many countries in both the developed and developing world predicted the demise of the SSEs. In fact small scale economic activities were treated by sociologists and economists as remnants of earlier stages of economic and social development. This dismissive attitude were undermined by well-developed theoretical views which explained the inevitable decline of the small scale enterprises.<sup>1</sup> This argument was often centred on the importance of economies of scale, both internal and external. For example, the economists noted that in areas such as optimum plant size, research and development, managerial performance, communications and marketing the larger enterprise were simply seen as more efficient.<sup>2</sup>

Similarly, most governments of the developing countries (as noted in chapters two and four) had not only increasingly intervened in the economy by favouring the large enterprises over small - by, for example, their purchasing policies as customers or their promotion of rationalisation with larger units - they also became major providers of goods and services restricting opportunities for small scale enterprises.<sup>3</sup> The sociologists, just like the economists also implicitly or explicitly, adopted a dismissive attitude to the small scale enterprises and their owners.<sup>4</sup>

Undoubtedly these attitudes were greatly influenced by the views of highly influential theorists such as Weber and Marx who claimed a decreasing significance of small scale enterprises and



their owners as capitalist societies became more mature. Marx, for example, argued that in the long run the concentration of capital would result in intermediary classes such as the petite-bourgeoisie, disappearing as a significant social force in history and society.<sup>5</sup> However, it has been pointed out that despite this long term view, Marx nevertheless saw the petite-bourgeoisie as surviving well into the development of mature capitalism.<sup>6</sup> What factors have been responsible for this shift in emphasis from large scale enterprises (LSEs) to the promotion of relatively small scale enterprises?

At the theoretical level of reasoning, economics has enjoyed a revival with its central emphasis on the importance of small scale enterprise in the competitive market process.<sup>7</sup> Contemporary Marxist theorising has sought to offer an alternative view of the place of small scale enterprises and their owners in monopoly capitalism. This thinking takes into account both the survival of traditional forms of business ownership and the emergence of other intermediate groupings which are neither simple wage labour nor members of the bourgeoisie proper (that is, those who own and control large scale capital).<sup>8</sup>

At the psychological level of orientation, evidence abounds of the persistence of strong motivation towards independence in the form of owning and operating a small business among ordinary wage earners and highly qualified professionals.<sup>9</sup> Also significant has been the political desire by most countries of the developing world to restore economic independence and dignity. Since in many countries large scale industrialisation increased the amount of foreign control and participation in the economy, it became politically desirable to encourage domestic entrepreneurs to take over major economic operations. But under circumstances of limited domestic capital, it eventually came to be considered rational to concentrate on the promotion of mainly small scale enterprises. It was the above nationalistic and populist views which provided a political philosophy leading to the growing significance of small enterprises.<sup>10</sup> We must now examine the history and role of small scale enterprises in Nigeria to fully appreciate this changing wave.



## SMALL SCALE ENTERPRISES IN NIGERIA

### *History and Policy*

The interest of Nigerian government in the development of SSEs can be dated back to the early 1970's<sup>11</sup> when special attention took the form of the restructuring of ownership and control of industrial activities in the country. Although the establishment, promotion and development of entirely new industrial activities was at this time not an important consideration the government in the early 1970's made efforts to increase the level of indigenous ownership and participation in manufacturing. This took the form of acquisition of economic activities or indigenous equity participation of between 40 and 60 per cent shares in alien businesses as spelt out in schedules I and II of the 1972 indiginization decree.<sup>12</sup>

In order to ensure successful transfer of businesses or equity shares in foreign businesses to the indigenous population, the Federal Government established the Nigeria Bank for Commerce and Industries (NBCI) to advance loans to qualified and interested Nigerians. The Third National Development Plan thus marked the beginning of government effective efforts to increase the level of indigenous ownership and participation in small manufacturing activities. It was against this setting that the appreciation of the role SSEs in the social and economic development was accorded some significance especially during the mid 1970's and thereafter. For instance, the potential of SSEs were perceived (by both Second and Third National Development Plans, 1970-79) as effective tools for the implementation of government economic and social objectives. It was hoped that SMEs would:<sup>13</sup>

- \* generate substantial employment opportunities for the unemployed youths at much more lower costs in terms of capital employed, as compared to its large scale industries
- \* mobilise available but hitherto untapped local resources of raw materials and skills
- \* stimulate growth of indigenous entrepreneurship.
- \* stimulate industrial dispersal to rural areas thereby helping to reduce the incidence of rural-urban migration with its disturbing socio-economic and political implications

- \* provide effective avenue for import substitution thereby saving much needed foreign exchange
- \* lead to dispersal of uncomplicated technology for easy acquisition and understanding by the predominantly semi-skilled labour force in the country. This can contribute to the growth of indigenous skilled manpower and technology

The central philosophy of the SMEs policy was based on the belief that the industrial take-off of any nation, most especially the developing economies in the Third World, depended to a greater extent on the successful take-off of SMEs.<sup>14</sup> The relative advantages and justification for the development of SSEs as stated by the government are concisely summarised as follows:<sup>15</sup>

- \* they are more labour intensive and therefore can create more jobs;
- \* they provide a good training ground for entrepreneurs;
- \* they are less complex in terms of technology and can therefore managed by the entrepreneurs themselves;
- \* they are much more likely to utilise local raw materials;
- \* they are likely to provide linkages between the larger enterprises and local producers of basic raw materials through the production of seem-finished raw materials; and
- \* they are within the financial reach of many entrepreneurs as the demand of the sponsor for the contribution of equity is less taxing.

### *Strategy*

To successfully achieve the stated objectives effective policy measures of implementation were introduced. In view of the evidence that inadequate financial, managerial, technical and commercial resources were some of the major problems hindering the development of SSEs, a number of measures and incentives were accordingly introduced by the government to remove these obstacles to development.<sup>16</sup> Structurally, the Federal Government created the Small



Scale Industries (SSIs) Division in the Federal Ministry of Industries with the responsibility of the formation of policy, planning, supervision and execution of the small and medium scale industries development in Nigeria. Other responsibilities of the organization included financial assistance, provision of extension services, commissioning of potential surveys, training of employees of SSEs and extension offices.

Equally significant was the establishment of Industrial Development Centres in different parts of the country charged with the responsibility of providing on the spot assistance and guidance to SSEs on process techniques, selection of machinery and equipment, training and management. They were also to serve as the core centres for the provision of managerial, technical and other assistance to small and medium scale industries as well as the major Government Policy and incentive outlets with services provided free.<sup>17</sup>

Most often the lack of adequate capital and credit facilities for sustaining the growth and development of SSEs were identified as the most basic and common problems facing the sub-sector. This problem was made worse by banks and other financial institutions refusal to advance credit to SSEs because of their high credit risks tendencies. This, it was argued, made it difficult for SSEs to draw money from the capital market and inevitably become starved for finance or had to turn to other sources to borrow money in extremely unfavourable terms. These difficulties, it eventually came to be accepted, made it almost impossible for SSEs to operate profitably in a competitive market.<sup>18</sup>

In realisation of this difficulty the Nigerian Second National Development Plan (1970-75) incorporated the SSIs credit schemes in the state programmes in line with the policy of giving effective aid to indigenous small industrialists. The Federal Government accordingly instructed state governments to set up Small Scale Industries Credit (S.S.I.C.) in order to give loans to SSIs on liberal terms. The state governments contributions to the Credit Fund were however to be augmented by matching Federal contributions to supplement the lending operations.



Towards the end of the Second Plan government had become the main source of finance for SSEs. This role continued into the Third Plan period, inspite of efforts made to stimulate lending to the sector by Commercial Banks and other financing agencies. During the Second National Development Plan (1970-74) a total of N15.4 million was voted for small and medium enterprises (SMEs) by both the Federal and State Governments.<sup>19</sup> The vote rose to N48.587 million in the Third National Development Plan (1975-80) out of which Federal Government allocated N20 million.<sup>20</sup> An additional fund of N50 million was allocated to meet the estimated investment requirement of SSEs.

In all the states, loans were given to SSEs engaged in manufacturing, processing and servicing activities with a capital investment not exceeding N150,000 in machinery and equipment.<sup>21</sup> The loan was to be used for expansion and modernisation of existing SSIs and also for the development of new small scale enterprises of the mechanised type to manufacture relatively sophisticated consumer goods as well as simple producer goods. Under the scheme, both fixed and working loans were to be given. Up to 50 per cent of working capital loan requirement and 75 per cent fixed capital loan of the cost of machinery was permitted. Land and buildings, machinery and equipment and other fixed assets were required by the Management Committee as security to loan. Insurance against loss by fire of all assets used to secure a S.S.I.C. loan was compulsory.<sup>22</sup>

### *The Place of Small Enterprises in Nigerian Economy*

During the fifties and sixties small scale enterprises (SSEs) were dominantly traditional in outlook and consisted largely of unpaid family labour and household industrial activities. The major undertakings included weaving, shoe-making, corn milling, smithying and tailoring.<sup>23</sup> By the 1970's and 80s, the better organised modern SSEs began to emerge making some contribution to the industrial output and employment. During the seventies SSEs were however concentrated on a narrow range of activities with garment and related activities consisting of over 50 per cent of the small scale industries.<sup>24</sup> While furniture and shoe making



contributed 8 per cent 7 per cent respectively, mechanically based small scale activities such as motor-vehicle, bicycle and watch repairing accounted for approximately 9 per cent in Bendal, Lagos and Kwara States.<sup>25</sup>

Although wearing apparel remained a dominant industry within the SSEs in the early 1980's its contribution to employment was slightly down to 30 per cent. Food and beverages industries however assumed substantial importance accounting for 20 per cent. During the 1970's and early 1980's SSEs producing capital goods for construction industry such as basic metal and fabricated metal products became more important in terms of employment generation. The growing importance of this sector was due largely to rapid increase in the development of infrastructure and construction industry during this period. Equally significant was the evidence that the contribution of the furniture industry to employment in the early 1980's remained unaltered accounting for some 8 per cent.

In the eighties the average size of establishments (measured in terms of employment) increased from three in 1970 to five in 1984. However, the form of ownership remained predominantly sole-proprietorship.<sup>26</sup> Although information is lacking on the survival and death rates of SSEs in Nigeria, nevertheless, the 1984 survey noted that more than half of SSEs in Nigeria came into existence between 1974 and 1984.<sup>27</sup>

Table 4.1 which provides commodity distribution and investment made by SSEs in Nigeria in the 1980's reveals that the non-durable consumer goods played the dominant role. While its share stood at 85.85 per cent in 1987 with products of rubber and plastic contributing over 56 per cent of the total share of this subsector, the textiles and wearing apparel made a total investment of 17.33 per cent. The share of investment by the durable consumer goods subsector however stood at 7.66 per cent in 1987. While the contribution by the other sectors (such as transport with 1.09 per cent) were quite insignificant, furniture was however the most significant industry contributing about 6.26 per cent of total investments. Finally, the

Table 4.1

Commodity Distribution of SSEs Investment in Nigeria  
1987

Industry	%
<b>NON-DURABLE CONSUMER GOODS</b>	
Food, Beverages & Tobacco	3.22
Textiles and Wearing Apparel	17.33
Footwear and Leather Products	0.83
Paper and Paper Products	8.17
Products of Rubber and Plastics	56.06
Pottery, China and Glassware	-
Petroleum Products	-
Others	0.24
Sub-total	85.85
<b>DURABLE CONSUMER GOODS</b>	
Furniture	6.26
Non-Electrical Household Apparatus	0.04
Radio	0.06
General Household Appliances	0.17
Others	1.13
Sub-total	7.66
<b>CAPITAL GOODS</b>	
Basic Metal Products	3.72
Fabricated Metal Products	0.50
Machinery and Equipment	0.14
Transport	1.09
Others	1.07
Sub-total	6.52
<b>Grand Total</b>	<b>100.00</b>

*Source:* Nigerian Institute of Social and Economic  
Research Data, 1987



Table 4.2  
Investments in SSEs by States in Nigeria

State	%
Anambra	1.13
Bauchi	0.30
Bendel	58.72
Benue	0.54
Borno	0.11
Cross River	0.19
Gongola	0.21
Imo	0.95
Kaduna	15.62
Kano	17.89
Kwara	0.70
Lagos	0.11
Niger	0.14
Ogun	0.28
Ondo	0.23
Oyo	0.50
Plateau	0.28
Rivers	1.14
Sokoto	0.96
<b>Total</b>	<b>100.00</b>

*Source:* Nigerian Institute of Social and Economic  
Research Survey Data, 1987

*Note:* The near-zero entries reflect the  
negligibility of investment in those states

capital goods subsector contributed 6.52 of the total share with basic metal products playing the dominant role and accounting for 3.72 per cent of the total investment.

Table 4.2 gives investment in SSEs by states in Nigeria in 1987 with the enterprises represented here found in the category of the manufacturing industries listed in the third broad division of the International Standard Classification (ISIC).<sup>28</sup> The Table reveals that Bendal state alone accounted for some 59 per cent of total investment. This was followed by Kano and Kaduna states with about 18 and 16 per cent respectively. With the exception of Anambra (1.18%) and Plateau (1.14%), the rest accounted for less than 1 per cent.

#### *Contribution to GDP and Value Added*

The exact performance of SSEs in terms of their contribution to growth and value added in the entire economy of Nigeria is very difficult to ascertain. It is also difficult to estimate the value added by each small firm and their rate of growth. This is largely because these enterprises do not keep adequate accounts of investment and output.<sup>29</sup> Similarly, government interest in these activities is relatively a recent one. However, extrapolations based on available figures could be made. According to the Federal Office of Statistics (FOS) the contribution of SSEs in manufacturing was estimated at 0.56 per cent of the GDP per year during the period of 1973 to 1984. In 1974/75 fiscal year, small manufacturing industries contributed 0.38 per cent of the GDP; the contribution however rose marginally to 0.75 per cent in 1981.<sup>30</sup>

During the period 1973 to 1981, SSEs contributed 12.5 per cent of the aggregate contribution of the manufacturing industries. The contribution consistently increased during the period rising to 14 per cent by 1981. Although the local value added by SSEs in Nigeria is thought to be generally higher than LSEs the local value added as a percentage of gross output in the SSEs was nevertheless recorded at 70.4 per cent in textiles, 96 per cent in rubber and plastics while furniture accounted for 65 per cent.<sup>31</sup>



### *Contribution to Employment*

In 1972 over 70 per cent of the industrial labour force in Nigeria was employed in the SSEs.<sup>32</sup>

In a regional survey conducted in 1971 in some of the states of Nigeria, a total of 15,266 establishments had a combined work force of some 36,000.<sup>33</sup> Comparatively, in the same period there were only 163 medium and large scale manufacturing establishments employing a total of 14,000 persons. In the former North Eastern State (now Bauchi and Borno states) employment in relatively large establishments was estimated to be 2,000 in 1972. Small scale enterprises provided 9,000 persons with jobs in one hundred selected towns and villages in the area.

In the early 1970's about 59 per cent of the employees in the SSEs in Bendal, Kwara and Lagos states were apprentices; 32 per cent owner-proprietors, while 9 per cent were paid employees. The equivalent share for Bauchi and Borno states were: apprentices 26 per cent, owner-proprietors, 42 per cent and paid employees, 32 per cent. A comparative structure in the Western States of Ogun, Ondo and Oyo was self employment (39.5 per cent); paid employees (10.5 per cent); apprentices (50 per cent). The aggregated figures for the employment structure of SSEs for the entire region in the early 1970's was that owner-proprietors constituted of over 35 per cent; paid employees, 17 per cent and apprentices 45 per cent.<sup>34</sup>

### *Towards a New Industrial Policy*

In the preceding sections it was noted that the structure of SSEs was loosely developed with limited linkages among themselves and their bigger counterparts. While the structure of ownership was predominantly limited to an average of one person per firm, the contribution of SSEs to the GDP was insignificant. These internal weaknesses necessarily required a new approach to their development if their supposedly acquired potentials were to be effectively exploited.

Since the Nigeria Bank of Commerce and Industry (NBCI) was established with the sole objective of tackling the financial problems confronting indigenous SSEs, it was able to approved N54.2 million worth of loans and disbursed N46.6 million but regrettably collected only N2.9 million in principal and interest repayments between 1981 and 1983. The poor repayment performance of this debt loan scheme was however interpreted by the Government as an indication of the low level of entrepreneurial culture and performance of small and medium scale industrialists in the country.<sup>35</sup> Consequently, the Federal Government changed the strategy when it negotiated a \$42 million loan with the World Bank in 1984.

An important element of the Small and Medium Enterprises (SME) project in the new strategy was a training programme designed to develop in Nigeria a core of trained manpower, as well as an institutional framework capable of providing technical advice and credit to viable small and medium enterprises. The Federal Government was to give all necessary support to the SME World Bank assisted project. In 1989 the Government was to negotiate a larger loan agreement of \$270 million in order to make salutary impact on small and medium scale enterprises during the nineties.<sup>36</sup>

A spin-off of the SME project was a series of technical training and industrial attachment courses in Nigeria and Britain in 1986, with the active collaboration of the British Council. The result of the courses was the adoption of five different self-employment programmes, based on the experiences in the depressed North-Eastern part of England. The programmes were introduced to other relevant Government agencies such as the Directorate of Food, Roads and Rural Infrastructure, the Directorate of Employment<sup>37</sup>, Federal Ministry of Social Development, Youth and Sports, and the Federal Ministry of Education and States Ministries of Commerce and Industries, NBCI, NIDB and the Nigeria Association of Small- Scale Industrialists (NASSI).



Based on the experience of other countries, one of the self employment programmes named "Working-For-Yourself" (WFY) was adopted to suit the Nigeria situation. Furthermore, in order to bring more coherence to the promotion of small scale enterprises, the Ministry set up a committee<sup>38</sup> to work out the possible options and configuration for an apex organisation to handle the following:

- \* the promotion of investment in Small Scale Industries
- \* the development of policies and programmes for the rapid development and adequate geographical dispersal of SSIs
- \* the provision of extension services
- \* the provision of training facilities for small-scale industries
- \* the provision of technical and management assistance; and
- \* the provision of relatively easy access to credit facilities.

In addition to the above, the Federal Government was to assist State Governments with matching grants in the establishment of industrial estates for small-scale industries. Similarly, the on-going Entrepreneurial Development Programme (EDP), Working For Yourself (WFY) and Training the Trainers Scheme were further intensified and improved upon. The Federal Government also took a number of fiscal measures to ensure that the banking system paid useful attention to the Small-Scale Sector. For instance, the commercial banks were instructed to grant 16 per cent of their total loans and advances to SSEs.<sup>39</sup> Penalties for default were prescribed. In 1987, the short-fall in lending was N21 million which the Central Bank took over for lending to NBCI. The States also had several incentives programmes for encouraging the development of SSEs.

#### *The New Industrial Policy and SSEs*

Inspite of Government efforts in promoting SSEs numerous problems militating against the development of a virile and self-sustaining small scale sector still remained. Some of the

problems were traced to internal and external factors. It is held that the persistent adverse economic situation in Nigeria affected the SSE sub-sectors much more than the other sub-sectors.<sup>40</sup> This was particularly noticeable in the declining ability of the SSEs to raise loans from financial institutions. The indigenous factors were identified as the tendency of small scale industries to behave like their large-scale counterparts by relying on imported raw materials, intermediate inputs, machinery and expertise. Similarly, most of the existing SSEs were badly managed hence their high rate of mortality. Other problems were traceable to the lack of knowledge by the entrepreneurs of the procedures involved in setting up and managing small scale ventures.<sup>41</sup>

Further difficulties were traced to the fact that the more established institutions such as the Nigeria Development Bank (NDB), the Nigerian Bank for Commerce and Industry (NCBI), the Small and Medium Enterprises (SMEs) unit of the Central Bank of Nigeria (CBN), and the National Directorate of Employment (NDE) were all unable to effectively resolve the peculiar funding needs of small and medium scale enterprises in Nigeria. Not even the imposition of a leading ratio of 20 per cent of their loan portfolio for productive ventures to small scale sub-sector on banks helped the situation as this order was often flouted.

With the inception of the Structural Adjustment Programme in 1986, it became clear that this vital sub-sector required a better financing deal - one that would guarantee medium to long term borrowing on lower interest charges. It was out of these circumstances that the concept of a National Economic Reconstruction Fund (NERFUND) was formulated. The concept became a law in January 1989.<sup>42</sup>

The Government's diagnosis of the industrial ailment and its treatment has most succinctly been articulated in the New Industrial Policy launched by President Ibrahim Babangida at Abuja.<sup>43</sup> According to the document, throughout most of the post-Independence era, Nigeria pursued an import substitution industrialisation strategy. The hallmarks of this policy were the



heavy reliance on the public sector to undertake "ambitious and often costly industrial projects"<sup>44</sup> with little inputs from the private sector. The statement also noted that the structure of manufacturing industry that emerged was highly distorted and heavily skewed with high geographical concentration, high import content and high production costs; low value-added, low capacity utilisation and a corresponding low level of foreign investment.

It is against this backdrop that the new industrial policy, situated within the frame-work of the Structural Adjustment Programme (SAP) is designed to redress what the President referred to as 'structural imbalances' and 'distortions'.<sup>45</sup> The overriding objective of the government's new industrial policy is to achieve an accelerated pace of industrial growth. The main element of this objective is to provide greater employment opportunities, increase the export of manufacture goods and to attain industrial dispersion. It is also aimed at improving the technological skills in the country and to increase the local content of industrial output. Finally, it seeks to attract foreign capital and increase private sector participation in manufacturing.

In order to enhance the achievement of these objectives several incentives programmes are being put in place to encourage their growth. A Small Scale Industries Corporation has been set up as an umbrella body charged with the responsibility of administering to the myriad and multifarious needs of the enterprises. Because of the crucial role of credit in meeting the financial requirements of these enterprises, government has broaden the mechanism for credit delivery to SSEs. This is being done by involving commercial and merchant banks, the Nigerian Agricultural Co-operative Bank (NACB), state development finance corporations as well the Nigerian Bank for Commerce and Industry (NBCI) in the mobilisation of financial resources for their use.

Okongwu<sup>46</sup> noted that the NERFUND is one of the very few policy instruments developed by government to tackle the problem of funding for small and medium scale productive enterprises. The Government's aim of introducing the scheme is to reduce the mismatch



between the terms of banks' deposits and loans for the subsector.<sup>47</sup> Thus the NERFUND is essentially an apex financing institution with over seventy commercial and merchant banks acting as intermediaries. NERFUND, which is set up to procure and disburse funds to banks for onward lending to industrialists<sup>48</sup>, is also an institution designed to reconstruct Nigerians' attitude towards loan and national properties. Although it is too early to assess the performance of NERFUND, nevertheless, in the first one year it approved loans totalling about N122 million for twenty-five manufacturing projects in fourteen states of the Federation.<sup>49</sup>

The extent to which policies based wholly on small scale enterprises can result in any significant reduction in poverty and unemployment under this scenerio will be empirically established in chapter seven. In chapter five, however, attempt s will be made to harmonise the issues discussed in this and the previous chapters. The relationship between theoretical propositions and research hypotheses as well as data collection procedures, methods of analysis and the definition of research variables will adequately be discussed.

## REFERENCES

- 1 James Curran gave a thorough account on this topic in a paper titled 'The survival of the Petite Bourgeoisie: Production and reproduction', 1983.
- 2 Ibid.
- 3 See Little et al, (1987) p.5; Bromley, (1983) and Mazumdar, (1983)
- 4 Scase and Goffee, 1983, p.21
- 5 Binks and Coyne, 1983, p.11-15
- 6 Ibid.
- 7 Curran, 1981, op. cit. and Copper, (1970)
- 8 Ibid.
- 9 See for example Binks and Coyne, (1983), p. 22-30; Curran and Stranworth, (1984); Boisserrain, (1984), p. 26-28. These hoverever represented the trends in the more advanced countries of the West.
- 10 See Curran and Stamworth(1984). for discussions covering Western Europe and Loyd P. (1982) for the developing countries.
- 11 During the Second Development Plan period (1970-1974), the Nigerian government made its first provision for the creation of credit facilities for small scale establishments to the tune of N1,200,000, and the establishment of three industrial development centres. However, the Third Plan went further by making adequate provision for the Industrial Development Centres aimed at giving the necessary management and technical advice to the small-scale business and allocated the sum of N33 million for the centres.
- 12 The indigenisation decree of the 1970's, earlier examined in chapter four, was intended to transfer the majority of the foreign owned enterprises to indigenous businessmen. It, however, did not envisage establishing new ones.



- 13 The arguments relating to this claim are raised and discussed in chapter 5. However these arguments are comprehensively tackled in 'The Role of Small Scale Industries in Nigeria', by Nigerian Institute of Social and economic research (NISER) 1987, IBADAN.
- 14 For most authoritative and reliable information on this topic interested readers are advised to refer to Nigerian Development Plans especially the Second Plan. Other useful guides are publications by the Industrial Research Unit of Ife University, Nigerian Institute of Social and Economic Research (NISER) and Nigerian Association of Small Scale Industrialists (NASSI).
- 15 More specifically these represent intentions expresses in various National Development Plans. Refer to Nigerian Third Development Plan, 1975-80, p.369-374. See also 'Technology and Employment Generation in Small-Scale Establishment', NISER, Conference on Economic Development and Employment Generation in Nigeria, Mimeo, University of Ibadan, 1975.
- 16 See for example the speech given by the President of Nigeria, Ibrahim Babangida in Business in ECOWAS, of 28 August 1990, Vol.4 No.12, p.20-22. See also the speech of Director-General of Nigerian Institute of Social and Economic Research in 'The Small-Scale Industrialist - Newsletter of the Nigerian Association of Small-Scale Industrialists', Vol.11 No.3, December 1988, p.2-3.
- 17 The three centres were located at Anugu, Ibadan and Zaria. For more detailed information refer to 'Industrial Development Centres in the Service of Small Industries', a publication by Small Industries Division, Federal Ministry of Industries, Lagos.
- 18 E.I.K. Sule, 'Small-Scale Industries in Nigeria: Concepts, Appraisal of some Government Policies and Suggested Solutions to identify the Problems', in Economic and Financial Review, Vol.24 No.4, Central Bank of Nigeria, December 1986.
- 19 Since the Second National Plan period in 1970, the lack of adequate investable capital and credit facilities have been stressed by successive governments and others till the present day.
- 20 Refer to the Second National Plan, 1970-74. The Fourth National Plan (1980-85) planned to raise resources to N124.0 million for 17 states and to N294.5 million for the Federal Government. This was, however, not completely implemented.
- 21 See Industrial Development Review Series - NIGERIA - Industrial Restructuring through Policy Reform. Prepared by Regional and Country Studies Branch, U.N. Industrial Organisation, 21 December 1988.
- 22 Refer to the Fourth National Development Plan (1980-1985) op cit.
- 23 For more detailed information refer to 'Industrial Development Centres in the Service of Small Industries', a publication by Small Industries Division, Federal Ministry of Industries', a publication by Small Industries Division, Lagos.
- 24 Ibid.
- 25 See University of Ife Industrial Research Unit, 'Small-Scale Industries in Mid-Western State; Kwara State and Lagos State of Nigeria', Mimeo, 1973 p.xxiii table 1.9. See also University of Ife Industrial Research Unit, 'Small-Scale Industries in Mid-Western State; Kwara State and Lagos State of Nigeria', Mimeo, 1973 p.xxiii table 1.9.
- 26 See 'The Role of Small Scale Enterprises in Nigeria', by Nigerian Institute of Social and Research (NISER) 1987, IBADAN, p.77
- 27 See 'The Role of Small Scale Industries in Nigeria', op. cit p. 77
- 28 See 'The Role of Small Scale Enterprises in Nigeria', by Nigerian Institute of Social These figures represent research projects undertaken by the Nigerian Institute of Social and Economic Research (NISER), Ibadan, in contribution to the preparation of the 1986-1990 Nigerian Development Plan. The study was conducted between 1982 and 1985. The small scale enterprises covered had a capital investment of less than N150,000 and employed less than fifty persons. About 300 establishments were interviewed with a response rate of about 90 per cent. The establishments were distributed all over the nineteen states of the country.
- 29 This has seriously affected the correct assessment of the magnitude, level of performance and how to define small scale enterprises.
- 30 Refer to the progress report of the Nigerian Third National Development Plan.



- 31 NISER, op.cit. p.79.
- 32 See University of Ife Industrial Research Unit, 'Small-Scale Industries in Mid-Western State; Kwara State and Lagos State of Nigeria', Mimeo, 1973 p.xxiii table 1.9.
- 33 Between 1971 and 1974, the Industrial Research Unit of Ife University carried out surveys and censuses of small-scale business in the five states of the then twelve-state structure of Nigeria. Some of these results could be read from Aluko, S.A., et al, 'Small Scale Industries Reports' Industrial Relations Unit, University of Ife, 1972, 1973 and 1974.
- 34 See University of Ife Industrial Research Unit , op. cit
- 35 See the opening address by the Minister of Industries, Lt.Gen. (Rtd.) A. Akimrinade at the opening ceremony of the national workshop on small scale entrepreneurship in Nigeria held at the Federal Palace Hotel, Lagos from 21st-23rd November 1988. Also published in The Small- Scale Industrialist Newsletter, Vol.2 No.1 March 1989, p.611.
- 36 Ibid. p.611
- 37 See *The Nigerian Economist*, op.cit. p.19-34 for a useful supplement of the activities and achievements of the National Directorate of Employment (as it relates to SSEs) are discussed with accompanying relevant data.
- 38 See the Speech of Lt. Gen. (Rtd.) A.Akimrinade in the *Small Scale Industrialist Newsletter*, p.8. See also *The Nigerian Economist* of Jan.31-Feb.13, 1989, Vol.2 No.10, p.6 for useful discussion on this aspect.
- 39 See speech by Akinrinade, op.cit. Refer also to the speech given by Alhaji Mohammed I. Yahaya, the Executive Director First Bank of Nigeria Ltd., at the Executive Council Meeting of the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture on March 3, 1989 at Minna, Niger State.
- 40 See an article written by Nkem Okafor titled 'Nigerian Enterprises Promotion Board and the New Industrial Policy in Marketing in Africa', March/April 1989, p.21-23, in *Marketing in Africa: The International Magazine for the African Market*, March/ April 1989, p.21.
- 41 For more detailed discussion refer to 'A Report on the Nation-wide NISER/Friedrich-Ebert Foundation of West Germany Training Programme' held at Ibadan, Kano and Aba for NASSI members. Most of these reports are published in the newsletter of the Nigerian Association of Small-Scale Industrialists (NASSI). See Vol.1 No.3 for example.
- 42 Refer to President Ibrahim Babangida's speech delivered in Abuja on National Economic Reconstruction Fund (NERFUND) of 1989, op.cit.
- 43 Ibid.
- 44 Ibid.
- 45 For more detailed account refer to the editorial comment by Business in ECOWAS, op.cit, p.6 and 38-41 of the fortnightly magazine.
- 46 C. Okongwu was the former Minister of Finance but currently the Cabinet Affairs Minister.
- 47 This represents Okongwu's response to questions asked by journalists and widely reported in most Nigerian dailies and weeklies. See Business in ECOWAS, op.cit., p.22.
- 48 Business in ECOWAS, op.cit.
- 49 The benefiting sub-sectors included maize snacks factory in Anambra State, a precious stone processing factory in Bendal State, a fruit processing factory in Benue State, a rice milling factory in Borno State, shoe sole and heels factory in Ono State, toothpick, matchstick products, and palm kernal oil expelling plant in Ondo State etc. etc.



## Chapter Five

### THE RESEARCH AIM, HYPOTHESIS AND DATA SET

#### *The research Aim*

In chapters two and three attempt was made to increase our understanding of concepts such as poverty, income distribution and employment and of the explanatory variables such as economic growth. Some propositions advanced by theorists included: one, that there is a trend of increasing inequality in the early phases of industrialisation, follow by declines in the later phases only; and secondly, that economic growth can lead to increasing income inequality, with the poor losing in absolute terms as well. Although these hypotheses have remained by and large debatable over the decades the latter has received more criticisms. Interesting as these discussions may be, the grossly inadequate data would not permit a comprehensive exploration of these issues especially with respect to the development experience of Nigeria. Nevertheless attempt will be made to explore them sketchy as the data may be.

Equally examined in the foregone chapters was the evidence that both the magnitude and dimension of underemployment and poverty had not only severely worsened in most sub-Saharan African countries but that unemployment (a phenomenon previously unknown to most of these countries) had surfaced and had reached unbearable levels. While the agenda in the 1970s was how to eradicate poverty and increase labour utilisation, in 1980s the discussion of adjustment policies had (as a result of external shocks) regressed to asking how the poor can be protected from getting poorer.

In an attempt to find explanations to these problems it was argued that reduced investment due to capital scarcity and shifting demand for labour had resulted in higher unemployment and larger number of day labourers than long-term employed workers. As a result, majority of the urban poor and the unemployed were forced to compete for basically unskilled jobs in the



informal sector in order to survive. It was further argued that since there were no social security and unemployment benefits in the majority of African countries their governments were encouraged to respond to the reality of an ever increasing number of unskilled, unqualified and untrained urban population who look for jobs and fail to find one. Both this and the need to increase the efficiency of the informal sector have presently led to a call for the development of modern small scale enterprises.

Although the employment concept was questioned (as examined in chapter three) it can be argued that policies promoting growth do not automatically create employment; however growth will continue to remain one of the necessary conditions for job creation especially against the backdrop that income is contingent on a certain amount of work performed. This argument is supported by empirical evidence which appear to indicate that some countries, under a wide ranging political regimes, have successfully combined adjustment with the protection of the poor. Targeted programmes, for example, combined with the right macro and meso-policies are increasingly considered by a number of developing countries as the key to success. Although it has been argued that it is not useful to merge employment concept with that of poverty since they are not the same there is however an area of overlap. It is against this setting that the direction and composition of growth and the distribution of its benefit have become increasingly very crucial.

There are basically three main reasons for undertaking this research work. The first one (which has already been considered in the preceding chapter) involved a review of some concepts that relate to development such as income distribution, income inequality, poverty, employment, unemployment and underemployment. The second objective represents an attempt to explore (a) the economic and social progress in Nigeria during the period 1950 to 1985 (b) the sources of growth of the economy (c) the extent to which the poor benefited from any rapid economic growth that may have taken place; (d) how government attempted to overcome some of the economic and social problems that may have emerged; and (e) whether the existing facts are



adequate to serve as guide that the current government programmes are likely to resolve some of the economic and social problems that beset the country. These five issues will form the subject of enquiry in chapter six.

The third objective is to examine the claims made for small manufacturing enterprises with regard to their ability to reduce poverty and the level of unemployment among the urban poor. This last objective, which will be partly considered in this chapter and in chapter seven, is based on a field study of organised sector of the urban economy involving 96 manufacturing enterprises of different sizes in some major cities of Northern Nigeria. Before any hypotheses are stated the following sections examine some dominant arguments surrounding small SSEs.

### **Arguments for Intervention**

Generally an increasing number of countries have shown interest in small enterprise development and have developed sporadic and isolated measures responding to the single aspect of their needs such as financial assistance, technological and managerial training, product design and marketing. However a few have evolved well-planned and comprehensive programmes, for example India, to develop them. What has been the driving force behind this development?

Globally, small enterprises are thought to perform a set of socio-economic functions which have necessitated government intervention namely: that they are creators of jobs<sup>1</sup>, that they are efficient in the use of appropriate local technology as well as being more innovative than the larger enterprises<sup>2</sup>, that they are potential risk-takers and have greater flexibility than the larger enterprises<sup>3</sup>, that they are sources of competition thus limiting the ability of large enterprises to raise prices and that they are seed-corn for future giant firms to grow<sup>4</sup>. This research is not about all these claims but more specifically it is about the ability of small enterprises to reduce poverty and unemployment in the situation of low income countries. It is this claim that defines

the central aim of this research.

Over the years the attractiveness of small enterprises have been based on the claims that, although there is no necessary association between small enterprises and labour intensive technology, there are many reasons why the owners of small units are more likely to minimise their capital investment, and to employ more labour per unit of output than their larger competitors. Equally, it has been observed that many people in poor countries go into business not specifically to minimise their return on investment but to buy themselves a job and that even in the circumstance where the more sophisticated entrepreneur's objective of establishing an enterprise might be guided by profit making, nevertheless, he is more likely to use a labour intensive technology than is the investor in a large business.

In the past three decades emphasis on the role of small enterprises has shifted significantly. For example, it shifted from the nationalistic desires for independent indigenous ownership and control of small enterprises in the late 1960s and early 1970s to the concern for redistributive claims in the 1970s. During the 1970s some countries concentrated on the relative capital-output ratio of small and large enterprises.

The 1980s also witnessed a shift in emphasis from capital-labour considerations. In Nigeria for example, it was observed that despite the contribution of small-scale sector to the economy (estimated to have accounted for between 30 and 50 per cent of the labour force-see chapter four) the federal government allocation to the sector represented only 1.83 per cent of the total allocation to manufacturing. This led to criticisms of government lack of commitment to the sector. So during the Fourth National Development Plan period, the third guide lines acknowledged that:<sup>5</sup>

in a country where there is abundance of unskilled labour and scarcity of capital, technical and professional skills and entrepreneurship, the need to make use of labour



intensive method and to design projects which are simple to maintain cannot be overemphasised. The employment of capital intensive methods ought to be limited to those areas where we have no choice of alternative technology.

This statement, therefore, echoes the gradual shift of emphasis from the previous public investment allocation which had encouraged capital-intensive methods of production (thus limiting labour absorption) to the promotion of small enterprises which are believed to be generally more labour intensive. And from the mid-1980s, with the introduction of structural adjustment programmes, greater emphasis was placed on the development of small enterprises. During much of the 1980s small enterprise development was emphasised as one principal way of employing the services of unskilled urban poor. Given this change of emphasis what are the main arguments surrounding this static claims, that is, employment creation by small enterprises?

### *The Employment Arguments*

The firmest and longest standing argument in favour of small enterprise development is that, because of their relatively labour intensive nature, they are especially suitable in an economy where unemployment is widespread. This proposition is often founded on the evidence that the staggering unemployment in most developing countries (as observed in Chapter 1) is socially and politically undesirable. Based on this, calls have been made in favour of strategies that would result in a rise in the level of employment. Both Broeke and Myrdal, as examined earlier, suggested that in the situation of underdevelopment a unique policy of small industry becomes inevitable. Myrdal, in particular, noted that a country embedded in relative poverty will be unable to lift itself out because of its weak adjustment processes. If 'shocks' are provided to the vulnerable parts of the economic and social structure through investment in small enterprises, the possibility of cumulative movements would raise the hope of the poor.<sup>6</sup>



In response to this renewed concern Sen<sup>7</sup> identified three aspects of employment namely: the income aspect; the production aspect; and the recognition aspect. This means that employment is both a means towards earning income and producing goods and services, and an end towards self-respect, participation in the life of a community and a sense of doing something worthwhile. It is against this setting that calls have been made to stimulate the demand for labour of the urban population that is living in absolute poverty; at least to fulfil the income aspect of employment.

In the same vein Carr<sup>8</sup> observed that traditional and modern large scale sectors of the economy are unlikely to provide sufficient jobs to absorb new entrants to the labour force and to eliminate the existing pools of unemployed or underemployed workers. Much would have to depend on the small sector to create employment opportunities if allowed and encouraged to do so. Staley<sup>9</sup> and Anderson<sup>10</sup> both recommended that any country that has abundant labour and scarce in capital, it becomes quite sensible to initially develop labour intensive decentralised small scale industries as a strategy for economic development. The ILO<sup>11</sup> and Plant<sup>12</sup> also share the view that small enterprises are more demanding of labour of the unemployed urban poor than the relatively more capital intensive large scale enterprises.

In the light of the above claims Birch<sup>13</sup> and Harper<sup>14</sup> strongly emphasised that despite the contribution of small enterprises in any given economy, their growth in the past have been hampered by the unreasonable reluctance of government officials to deal with the sector. This attitude, remarked Hart<sup>15</sup> and Mazumdar<sup>16</sup>, has resulted in low demand by government for the services of small enterprises. Gerry<sup>17</sup> and Mazumdar<sup>18</sup> also noted that governments have positively discriminated in favour of firms in the large scale sector by offering access to credit, foreign exchange concessions and work permits for foreign technicians. These factors, according to proponents of small enterprises, enable many large foreign-owned plants to be technically inefficient. Based on these reasoning, governments of the developing countries



have been encouraged to give every assistance to the promotion and development of small enterprises.

### *The Capital/Output Arguments*

On the contrary, there are people who believe that small scale enterprises are not necessarily more demanding of labour. Dhar and Lydall, for example, rejected the simplest view that a positive relationship exists between small enterprises and increased rate of demand for labour force. Increased rate of demand for labour, they noted, does not suggest any special case for smallness. Instead they suggested that at their root employment arguments are really capital arguments and that small enterprises are in favour because they are expected to have lower capital/output ratios ( $K/Y$ ) than large enterprises. Dhar's and Lydall's figures demonstrated that output per unit of capital was higher in small than large units in a number of important cases and offered the figures in Table 5.1.

Comparative figures from Colombia<sup>19</sup> and Thailand<sup>20</sup> (see Table 5.2) reveals that for manufacturing as a whole the smallest size group (less than 10 workers) was not the most labour-intensive<sup>21</sup>. In India, Annual Statistics of India<sup>22</sup> data (see Table 5.3) reveals labour intensity to be higher in the range 26-99 workers than in the range 10-19. When such data was disaggregated, however, it was found that factories in the range 10-49 were more labour-intensive than larger ones in a high proportion of cases. But the much greater level of desegregation possible in Korea (see Table 5.4) showed that industry specific labour peaked evenly for all size classed in the range 5 - 500 workers.<sup>23</sup> Moreover, the highest capital intensity was often found in the range 5 - 50 upwards. Figures for Japan revealed that the size class for less than 10 workers was not the most labour-intensive in a few cases.<sup>24</sup>

Others have argued that discrimination in favour of small enterprises will only amount to the direction of business to a very few petite-bourgeoisie enabling them to transcend the limitations

Table 5.1

Output/Capital Ratios in Different Sizes of Factory, 1956

Average Daily Number of Employees					
Industry	20-49	50-99	110-249	250-499	500 +
Wheat Flour	.23	.44	.35	.80	-
Rice Milling	.32	.34	.30	(.24)	-
Vegetable Oils	.20	.24	.22	.30	(.31)
Soap	.13	.18	.53	(.90)	.71
Tanning	.28	.39	.38	.55	(.32)
Cotton Textiles	.24	.50	.23	.41	.63
Woollen Textiles	.14	.34	.16	.34	.51
Bicycles	.51	.58	.39	.51	.49
Electric Fans	.36	.33	.53	.41	.30

( ) indicates one factory only; output is annual net value added; capital is net fixed capital at book value plus stocks and cash at end of year.

Source: Dhar and Lydall, p.14

Table 5.2

MANUFACTURING, THAILAND

(thousands of baht)

Number of Workers	Y/L	K/L	Y/K
0-9	22.5	85.6	0.26
10-49	29.2	67.7	0.43
50-99	46.6	77.6	0.60
100-199	51.9	87.6	0.59
200 or more	80.1	216.1	0.37

Source: Tambunlertchai and Loohawenchit  
(1981, table 5.17)



Table 5.3

Selected Economic Ratios in the ASI Sector by Size Groups  
1974-77

(thousands of rupees)

Number of Workers	Y/L	K/L	Y/K	W	WL/Y	$\frac{Y-WL}{K}$
10-19	3.84	8.81	0.44	1.53	0.40	0.27
20-49	4.06	8.47	0.48	1.71	0.42	0.28
50-99	4.42	8.68	0.51	1.97	0.45	0.28
100-499	6.47	14.46	0.45	2.75	0.42	0.26
500 or more	9.71	26.68	0.36	4.58	0.47	0.19
All ASI	7.41	18.63	0.40	3.36	0.45	0.22
SSI	4.56	9.98	0.46	1.50	0.34	0.30

**Note:** Wages are in 1972 constant thousand rupees  
**Source:** Little et al, p.117

Table 5.4

All Manufacturing, Selected Economic Factors, Korea, 1968

(thousands of won)

Number of Workers	Y/L	K/L	Y/K	W	$\frac{Y-WL}{K}$
5-9	196	296	0.66	63	0.45
10-19	248	375	0.66	83	0.44
20-49	259	388	0.67	84	0.45
50-99	315	387	0.81	92	0.57
100-199	553	380	1.45	102	1.18
200-499	607	520	1.17	125	0.93
500 or more	598	656	0.91	-	0.72

**Source:** Ho (1980)

of the competitive markets thereby enabling them to achieve a measure of protection among the ranks of the ancillary bourgeoisie.<sup>25</sup> Little<sup>26</sup> and others see the advancement of institutional credit to SSEs as a means of facilitating the expansion of firms that have passed the survival stage and have acquired at least the beginnings of a good track record. Based on this argument the existing SSEs in both advanced and less developed economies should not be encouraged because they are doomed in the long run. *Small* according to them is not necessarily *beautiful*.

These differing claims necessarily breed some conflict because capital-labour considerations, such as the desire to maximise employment per unit of capital invested, might imply small units while capital/output considerations, such as the desire to maximise output per unit of capital invested, might imply larger units. It is these differing findings that have dominated much of the literature for a very long time.

### **The Research Hypotheses**

On the basis of these arguments and of the analyses of the socio-economic contributions that small enterprises have made in the Nigerian economy and the controversies surrounding the analyses of poverty and income distribution (as examined in chapters 2 and 3), are small enterprises likely to lead to a reduction in poverty and unemployment? In order to answer this question the following main research hypothesis has been advanced:

#### **Main Research Hypothesis:**

*Under the current economic situation in Nigeria any policy to assist small (at the expense of the large) firm will not substantially improve the economic position of the low income groups since, under such circumstances, the poor will find it extremely difficult to secure formal sector jobs*



This hypothesis has been further sub-divided into four for empirical testing , thus:

- 1a      There is no difference in the skill intensity of production between small and large enterprises*
- 1b      There is no difference in the rate of demand for new labour between small and large enterprises*
- 1c      There is no difference in the demand for the labour of urban poor between small and large enterprises*
- 1d      There is no difference in the wages of unskilled workers between small and large enterprises*

This research is carried out with the understanding that employment is only *one way* of improving income distribution. The case really is that gains in real income among low income groups can provide direct evidence that poverty is being alleviated. Therefore any change in income distribution, when appropriately conceived and measured can be a good criterion as any for assessing progress towards the reduction of absolute poverty.

Rising modern sector employment might therefore be suggestive of improvements in the economic position of the poor. It ought to be stressed, however, that any significant improvement of the condition of poor must focus among other things on increasing the economic returns to the limited factors the poor possess (that is, raising the returns to their labour through more employment as well as progressively altering the existing pattern of concentration of both physical and human capital towards low income groups. It ought to be noted therefore that this research undertaking serves only as a complement to other approaches which are not considered in this study.

Also worth noting is that this research is carried out under a general situation of economic depression in Nigeria where both small and large enterprises have not only witnessed severe labour turnover but have recorded significant fall in magnitude in absolute terms. Similarly, it represents a period of massive increase in unemployment and under-employment not only among the uneducated urban poor but also of the educated category. The general socio-economic scenario under which this research was conducted is fully discussed in chapter 6. The following sections however examine the arguments surrounding the hypotheses stated above, the data set and the research design.

## **Research Variables Defined**

### *The Urban Poor*

In chapter 2 poverty was defined both in relative and absolute terms while measurements based on income, nutrition, poverty gap, Atkinson utility index, Sen welfare index, Gini coefficient and mean deviation of the income of the poor from the poverty line were identified. In this research the grossly inadequate and reliable data will not permit the utilisation of the most conventional poverty line. This necessarily limits any rigorous investigation of the thesis.

Measuring poverty, as has rigorously been examined in chapter two makes the choice of poverty line even more daunting. Ideally one would have loved to employ an improved version of the above poverty lines to capture all the aspects of poverty, regrettable this is not possible. Since this research is not particularly concerned with the measurement of poverty alleviation but with determining the extent to which enterprises can result in the demand for the labour of urban poor, the urban poor under normal situation can often be discerned on the basis of ocular evidence.

In this research, instead of relying solely on ocular evidence, the poor is defined as that urban resident whose total monthly income (in money terms) fall below the national minimum (monthly) wage of N150.0 (in 1988 1 Nigerian naira = 0.1 US cent). This approach which is



grossly inadequate has to be employed as a close proxy to the determination of the poor for whom policy should be directed at. It should be recalled that in chapter two Fields advised that the choice of the minimum wage of a given country can provide a useful criteria for determining who is poor. This measurement will however be supplemented with other general characteristic associated with the Nigerian urban poor such as the level of education and his/her degree of involvement in the urban informal sector activities. For example, majority of the unwaged urban poor who generally work inconsistently for others in the small informal sector activities.

### *Small, Medium and Large Enterprises*

It is difficult to define small scale enterprise with some consensus. This is partly because different countries have different legal definitions to suit their particular situations and different writers on small scale industry offer their own definitions for their particular purpose. It is precisely because of this that any definition of SSE is apt to be arbitrary.

In the literature two approaches are made to the above problem. The first approach differentiates small enterprise from the large on the basis of some quantitative measures while the second defines it in terms of some functional criteria. The functional criteria primarily refer to the degree of specialisation and bureaucratization internal to the industrial organisation and degree of strength with respect to its position in dealing with the market and community of which it is a part, which are external to the industrial organisation among others. Eugene Staley <sup>27</sup> was one of the major advocates of the functional approach to the problem of definition.

Although the use of distinctively measurable statistical criteria may satisfy the more expedient desires of governments and research workers, nevertheless, there is no ready satisfactory way of measuring the size of an industrial establishment. A number of measures suggested include the number of employees, capital assets or capital investment, output, amount of energy used,



and relative position in the industry. Among these statistical criteria, the number of employees has been most commonly used by specialists and government officers, not only because these data are most available but also because such data are most likely rendered for international comparison.

Again, the criteria of number of employees which constitute SSE is by no means uniform. In fact what is officially defined as small scale industry in terms of number of employees varies from one country to another: the upper limit ranges from 50 for Singapore, Thailand and Malaysia, 100 for Republic of China, and Philippines, 200 for Hong Kong and South Korea<sup>28</sup> and to 300 for Japan<sup>29</sup>, in the Asian countries. In the United States, a manufacturing firm is officially a small business if it is not dominant in its field of operation and has fewer than 500 employees, or if it is certified as small by the Small Business Administration.<sup>30</sup>

In Nigeria, the acceptable definition is much more complicated. In the past, the definition of SSE has varied from one industrial grouping to another and indeed from one government and financial institution to another. The Nigeria Federal Ministry of Industries, for instance, adopted a definition by value of installed fixed capital. The value has not been static because it has been subjected to government determination and the prevailing objective of the public policy. In 1972, the figure was fixed at N125,000; while in 1975, it was raised to N600,000, which was attributed to the inflationary situation at the time.<sup>31</sup>

The Central Bank of Nigeria in its Credit Policy Guidelines, defines SSIs as those with annual turnover not exceeding N500,000 (for Commercial Bank's lending purposes) and enterprises with limit of capital investment of N2 million (excluding cost of land) or maximum turnover of N5 million (for Merchant Banks lending purposes). The Nigeria Bank for Commerce and Industry (NBCI) assumes a different posture. The bank regards enterprises with a total cost of not more than N750,000 as small scale. In 1989, only industries with fixed investment of not



more than N500,000 (exclusive of building) were classified as SSIs.<sup>32</sup>

The above criteria typifies the dilemma of any general consensus as to how small scale industry should be defined. Experience has shown that if project cost is used as a criteria, price inflation renders the definition untenable within a matter of months. If capital cost or turnover per employee is used, the definition ignores the fact that all businesses do not have the same capital-output ratio.

Among students of industrialisation, it is common for them to define small scale industry as the industrial establishments employing fewer than 50 workers or fewer than 100 workers.<sup>33</sup> In the present study the former definition is adopted and therefore defines small scale industries as those employing less than 50 workers.<sup>34</sup> Any firm employing more than 49 workers is considered as large. However, for comparative and analytic purposes large scale enterprises have been further subdivided into two - medium and large. A medium scale enterprise is here defined as an enterprise with 50-99 employees on its payroll. On the other hand a large scale enterprise is that which has over 99 employees on its payroll.

### *The Research Hypotheses Explained*

The possibility of creating jobs for the unskilled urban poor through small enterprises has been a recent topic for discussion in most countries. According to Anderson<sup>35</sup> the current interest in small enterprises in developing countries stems largely from the widespread concern over unemployment. This fact has further been strengthened by the absence of social security and unemployment benefits in less developed countries. An equally important argument often put forward is that 'for the greater part of the poverty group, the small enterprise is the only activity in which the poor can usefully hope to be engaged, particularly in the immediate future'.<sup>36</sup>

Anderson also noted that although there are some ambiguity as to whether within narrowly defined sectors, small enterprises are more labour-intensive than large scale enterprises, the

former are more concentrated in the labour intensive sectors.<sup>37</sup>

In order to ascertain the extent to which small enterprises (and for that matter any size category) can result in increased demand for the labour of unskilled urban poor under the existing structural adjustment programmes, five research hypotheses have been set up. It is hoped that these hypotheses will help to answer the following questions: What can be achieved by the development of small enterprises? Is there a logical degree of conflict between a development strategy based on small enterprises and the need to alleviate poverty and reduce income inequality? Is there a real choice between large and small enterprises? The four hypotheses are discussed below along side the data requirement and methods of analyses.

**Hypothesis 1a *There is no difference in the skill intensity of production between small and large enterprises.***

The assumption that some manufacturing activities are more demanding of unskilled labour presupposes that the tasks performed (or to be initially performed) by majority of unskilled workers will be predominantly unskilled in such enterprises. In order to test this assumption it becomes important to establish *a priori* which size group has lower or higher skill intensity of production. Once the enterprises have been identified it becomes straight forward task to initiate policy strategies to strengthened their demand for the relatively unskilled labour of the poor.

Size of an enterprise is here (and indeed for the remaining hypotheses) measured by the total number of paid workforce in a given enterprise.<sup>38</sup> The extent to which small enterprises in Nigeria are likely to be characterised by low skill intensity of production will form the subject of enquiry of this hypothesis.



Low skill intensity of production is here defined as the predominance of residual activity which requires the services of semi-skilled and unskilled production and ancillary workers.<sup>39</sup> High skill intensity of production refers to high concentration of specialised tasks or activities that involve the supervision of less skilled workers by skilled workers. In small enterprises, activities involving multiple tasks in the production system are considered skilled. In the large firms (especially those using factory methods), tasks which involve control over the quality of product and degree of waste are classified as skilled. However, such tasks as machine-paced operations (such as assembling) are considered as unskilled since these exercises involve little discretion over the pace or nature of the tasks.

A visit was made to the different sections of the enterprises to ascertain whether the tasks performed by workers were skilled or unskilled. This method proved to be more efficient than one based on question C.4 (State number of workforce that are (a) skilled (b) unskilled). As evident by the pilot study responses, most employers had differing understanding of unskilled and skilled tasks. To achieve conformance, wages of the different categories of workers were compared and further supported by participant observation. This involved random interviewing of workers at their work places and determining the tasks predominantly undertaken by them; whether tasks performed were fixed or not and whether they involved skilled workers or not.

The data requirement for this assumption was derived by categorisation of all employees (old and new) according to the tasks predominantly performed by them in all the ninety six enterprises. Since it was not possible to interview all the employees the data needed was calculated from lists of employees provided by the personnel and accounts departments (staff list, or pay roll list). The data needed for this variable was based on the total size of the workforce in the last year of the survey. It does not, therefore, represent the average over the three years covered by the survey. Details of data requirement for this hypothesis is given in Appendix 1.



The principle statistical tool for testing this hypothesis is based on Difference-of-Means test. This test is derived from the Central Limit Theorem<sup>40</sup> and therefore requires strong assumptions. The advantage of this is that it represents a very powerful test in the sense that it involves certain errors.<sup>41</sup> Since the test of this hypothesis is based on Difference-of-Means test, the intention is to make a rational decision as to whether or not the assumed values of the parameters are reasonable in view of the evidence at hand. The testing of this hypothesis should therefore be viewed as a special type of decision-making process.<sup>42</sup>

The relative efficiency of using Difference-of-Means test is that when used cautiously, it can yield considerably more information than the Analysis of Variance test. Blalock<sup>43</sup> noted that, while Analysis of Variance or ANOVA can offer a single test of whether or not all categories or types differ significantly among themselves, it (ANOVA) may lead to significant results primarily because one category is far out of line with the rest. An exclusion of such category might lead to a quite different conclusion. This type of 'error' remarked Blalock, can significantly be avoided by using Difference-of-Means test since two separate tests as opposed to one single test will be involved. Therefore, in a series of Difference-of-Means tests if it is suspected before making a test that one or more categories will differ considerably from the others, a number of one-tailed Difference-of-Means tests might be appropriate.

In the test of this hypothesis and the remaining four, a one-tailed difference-of-means test involving two sample data at a time, will be conducted. Similarly, the null hypothesis of no difference will directly be tested, in contrast with the research hypotheses earlier stated. Under this procedure there are logically only two possibilities: there either is or there is no difference in the skill intensity of production between the sample data of the two separate size groupings.



Hypothesis 1b: *There is no difference in the employment growth potentials between small and large enterprises.*

This hypothesis intends to establish the recruitment rate of new labour by firm size over specified period, how fast that growth is and which size category grow fastest. Kilby<sup>44</sup>, Liedholm and Mead<sup>45</sup> and Anderson<sup>46</sup> have in varying degrees remarked that micro/small<sup>47</sup> enterprises (in absolute terms) generate more new jobs per annum than large enterprises. Since there is enormous existing and future supply of labour in the developing countries, the spread of investment capital in a more widely manner in favour of small enterprises which are considered to possess the potentials to generate more new jobs per annum than larger enterprises have been called for.

It is against this background that enterprises of different size groups were surveyed in Nigeria over a three year period. The outcome of the survey will, therefore, provide direction for policy. It is, however, important to note that this hypothesis has been set up to complement others. While rapid rate of employment growth may be desirable, it might be of inherent interest to know how this happens and who benefits from the generalised increase. This will form the subject of enquiry in hypothesis 1c.

The data requirement for this assumption relates to the total number of new labour force employed by all the ninety six industries covered by the survey. Information on the total labour force employed between December 1988 to December 1990 was collected on an annual basis. Because of the difficulty of getting such information from statistical offices, it became necessary to rely on this method in order to provide reliable and first-hand data. All new jobs recruited were noted each time a visit was made. Average rates of job increases on yearly basis were then subjected to further processing. In this respect, close contact of interviewers with the personnel or recruitment offices was vital. Through this approach, the newly employed workers were seen and interviewed in work places. As stated in the first hypothesis the

difference-of-means test was used in testing this hypothesis.

Hypothesis 1c: *There is no difference in the demand for the labour of urban poor between small and large enterprises.*

This hypothesis represents the main subject of enquiry of this research because it is directly concerned with a target group - the urban poor. The ILO hold the view that in so far as many human needs are primarily personal and individual, it may be easier to satisfy such needs by small enterprises instead of large scale mass production.<sup>48</sup> The ILO equally maintains that small enterprises generally employ workers with limited formal training, who then learn skills on the job.<sup>49</sup> In the light of this, small enterprises in the situation of less developed countries are perceived to be better suited for the unskilled and the marginally skilled workers who can be employed, efficiently, using labour intensive techniques. Equally, the ILO maintains that the small enterprise development schemes may provide a means of introducing equity of income distribution to members of the workforce excluded from participating in the monetary system of the country.<sup>50</sup> The extent to which claims made for small enterprises are true will empirically be examined in this research.

The data requirement for this hypothesis is derived from those collected for hypothesis two. The hiring pattern of enterprises over the three year period were broadly categorised into two: the urban poor and non-poor. The urban poor is here referred to those newly employed workers without previous regular employment or had inadequate or low income. The long-term unemployed were also classified as poor. The origin of newly hired workers was also an important yardstick; for example, those found in the informal sector activities - like the apprentices and those with limited formal training.



The extent to which small enterprises can provide job opportunities for the relatively urban poor under the current Structural Adjustment Programme in Nigeria will empirically be established in this dissertation. Unless small enterprises are found to fulfil this claim, there will certainly be a strong case against their development in this respect.

The main statistical tool for testing this hypothesis is based on the difference-of-means test earlier discussed. Initially, the number of newly hired labour of the poor was, however, recorded and converted into percentage growth rate over the three year period. The figures were then subjected to statistical manipulation with the sole aim of establishing whether significant differences existed between the three size groupings with respect to demand for the labour of the poor. The results are given in chapter seven.

Hypothesis 1d. *There is no difference in the wages of unskilled workers between small and large enterprises.*

One argument which tends to favour government spending in support of small scale enterprises under the current Structural Adjustment Programme is that small enterprises are more likely to pay workers lower wages than the larger scale enterprises. This is because the wages paid by small enterprises are likely to reflect the true market situation.<sup>51</sup> This characteristic, it is further argued,<sup>52</sup> can ensure future demand for unskilled labour of the poor, leading eventually to a more efficient method of income distribution. Since this research is about a particular target group - the unskilled urban poor - the wages received by unskilled workers in the categories examined will be compared. If large enterprises are found to be paying higher wages to unskilled workers, would it not be both politically and economically sensible to encourage their development?

Another important theoretical claim is that state regulation of the economy in most developing countries have suppressed workers wages to such an extent that there is relatively little

difference between the wages of unskilled workers in large and those in the small sector.<sup>53</sup>

The consequence of this is that employers in large sectors may have less incentives to farm out routine work to small enterprises. One of the objectives of setting up this hypothesis is to establish the extent to which wages of unskilled workers differ by firm size in Nigeria. Is this true that small enterprises pay lower wages to unskilled workers or do small enterprises (as others have noted) pay the same wage rates to unskilled workers as in the large scale sector?

Derived from the two broadly stated skill categories in hypothesis 1 and relying on pay roll documents, wages of individual workers were matched to their level of skills. The obtained data was based on the final year of the survey and therefore represented the average wages of unskilled workers in a given industry. Difference-of-means test was used to test this assumption.

## **Data Generation**

Between August and September 1988 several visits were made to the two states of Niger and Kaduna<sup>54</sup> to collect the lists of all manufacturing activities with the sole aim of determining the sampling frame. The absence<sup>55</sup> of a central statistical body where sample frame could be drawn in Nigeria necessitated several visits to different establishments in both the public and private sectors. The sources of such information included: business registration, tax records, industry directories, registers of employers associations, trade unions, various state ministries of industry and trade, finance and planning ministries, Nigerian Institute of Social and Economic Research, Federal Institute of Social and Economic Research, Federal Office of Statistics, states statistical agencies, Boards of Internal Revenue and publications of Manufacturing Association in Nigeria and Nigerian small scale industrialists.

In all, a total number of 1,473 enterprises was compiled, representing the two states under consideration. Regrettably, the list was beset with a number of problems since most of the



listed firms did not give names, geographical locations, physical addresses, mailing addresses, major products or services offered. Similarly, the total number of employees was not included in the list. It was also not certain whether the list involved a substantial number of 'dead' enterprises as such caution was required in treating the list. This frame inadequacy, incompleteness and incorrect names and addresses in Nigeria necessarily place a barrier on the use of most efficient methods of sample design.

### *Pilot Study*

In the light of the above shortcomings a pilot study became necessary. The pilot study was intended to ensure quality control, more efficient methods of data collection, effective staff training, fieldwork organisation and the determination of the final sample size. On the whole the exercise was aimed at giving direction in which the research aim, hypotheses, sample design and techniques as well as efficient methods of data generation, management and processing could be achieved within a reasonable time scope.

At the pilot study stage, twelve firms were randomly selected. This involved four different kinds of activities namely, agro allied based manufacturing, furniture, building and beverages. The survey was undertaken during the months of October and November 1988 in the two states of Niger and Kaduna with five students assisting in the data collection. The exercise involved a mixture of different research methods namely: structured and unstructured interviews, observations and collection of secondary information.

All the information gathered during the pilot study were manually processed during the months of November and December of 1988. The result had significant impact on the entire methods of data collection. First, of the twelve enterprises that were initially selected, five refused permission to be interviewed. After several trials and persuasions two other firms finally agreed to be interviewed. Second, of the twelve enterprises that were finally surveyed only four gave comprehensive response to questions asked. It also required several visits to the

firms before the information being looked for were got.

One significant outcome of the pilot study that was decisive in adopting a completely different approach was the poor habit of record keeping of many firms. The initial data gathering approach was one based on visiting enterprises and collecting data regarding past performances in terms of demand for new labour force, initial number of skilled and unskilled workers, and wage increases for these groupings over the past five years in operation. The information gathered was then to be confirmed by interviewing managers and employees. The result of the pilot study revealed that this was not possible for several obvious reasons as earlier explained.

### *Main Survey*

Having conducted the pilot study and the results analyzed, lessons learned and accordingly modified, it became necessary to enlarge the research parameters, both in terms of the area and the product type. One factor that contributed to the enlargement of the product type was the increasing academic interest<sup>56</sup> in the variation between different product types in their demand for the labour of urban poor and rate of increase in wages of the unskilled workers. It was therefore considered feasible to study eight different firms based on product type.

Similarly, two other states namely: Kano and Plateau were included. These four states put together account for over a third of the national manufacturing establishments and employment.<sup>57</sup> This is a very significant share as it relates to the representativeness of the area covered by the research.

With the inclusion of Kano and Plateau states additional 1,516 enterprises were counted. This rose the frame size to a total of 2,989 representing the four states. These were added during the months of January and February of 1989. The inclusion of Kano and Plateau states as well as the application of statistical tool of measurement further guaranteed the national representativeness of the data.



It is important to state that a knowledge of size of the population for which interest is focused is vital because it gives an exact and accurate picture of the population being studied. It is particularly unfortunate that since political independence in 1960 the Nigerian federal government through its various agencies - Federal Office of Statistics and Federal Ministry of Industries - have been unable to achieve such an objective, given the huge financial resources at its disposal. In fact it was only in 1977 that the first Manpower Requirement Survey was begun. The Report became known in 1980 with only 5,110 establishments involved. The second attempt was in 1981 with report published in 1984 involving 7,660 establishments. Similar efforts by the Federal Office of Statistics and National Manpower Board started in 1986; and it was only in 1989 that the Federal Office of Statistics started to develop a national integrated survey of establishments.

Under such circumstances, statistical inference became a useful alternative. Working with a good, up-to-date data involving the whole population becomes wishful thinking. Thus, statistical testing was thought to be a better method of generalisation once the basic statistical rules were complied with.

#### *Sampling Fraction/Technique*

Random sampling technique was used during the first evaluation process. This resulted in a total number of 631 enterprises tentatively identified to have recognisable names, locational addresses, and product produced. From this figure it became necessary to apply some probability sampling techniques of selecting enterprises. Here a combination of simple random sampling at the initial stage and in the main, a systematic technique of selection. A total of 481 enterprises were found to have operating addresses and actually in operation. 250 were randomly selected from the above and letters sent out to them for permission to be interviewed.

In the first month of the dispatch of letters (most of them hand delivered with the aid of trained students) 101 responded favourably, 17 requested a second application. The rest, about 132



did not respond. Relying on the 113 enterprises that gave permission to be interviewed, the revised research questionnaire given in Appendix 1 were administered.

The main research questionnaire required data collection on a year by year basis running through a two-year period. Since it was difficult to collect past information from industries (as evident by the pilot study) it became necessary to enter some mutual arrangement with the management in order to collect the relevant statistics over the years.

### *Enterprises Surveyed*

Enterprises covered by the survey were predominantly urban based and drawn largely from the cities of Kaduna, Minna, Jos, Suleja, Bida and Zaria. The map in page 8 shows the geo-political set up of the areas covered within the national context. As earlier observed Kano-Zaria-Kaduna and Jos form the northern industrial triangle of the country. This zone occupies an important area not only in terms of national share of industrial activities but also because it has continued to be the economic nerve centre of the entire northern region which currently enjoys some 52 per cent share of total population of the country.

Equally significant is the fact that cities in Northern Nigeria have higher concentration of the poor than the remaining regions of the East and West. The explanation for this is partly because of the ecological, religious and cultural factors. The encroachment of the Sahara desert into the heartland of Nigeria on the one hand and the growing population pressures on dry and infertile land on the other hand have meant that about a third of the entire land area in northern Nigeria is arid. The immediate effect of this has been the mass migration of the rural populations into cities of Northern Nigeria. Since majority of these migrants (in addition to other graduate unemployed ) are economically weak, uneducated, destitute and unskilled by manufacturing requirement, they happen to be among the extremely poor who have to compete for urban jobs with others. This scenario typically makes the choice of northern cities ideal for a research which is cantered on the reduction of absolute poverty and unemployment.



It must be stressed at this point that the enterprises surveyed do not represent those enjoying a 100 per cent government support nor are they specialised enterprises set up by international agencies. Rather they represent enterprises operating under free market forces. It was thought that a selection of such enterprises would better reflect their proper functioning, especially in an era of declining government revenue and increased deregulation. Since the capital goods sub-sector has received very little attention in the past and are absent in any significant number especially at the small scale level for comparative purposes, the enterprises covered by the survey do not include them. It was because of this that the sector was dropped in favour of consumer and intermediate goods sub-sectors since they play much more significant role in the national economy.

Also dropped were the micro enterprises - those with less than five employees - because most of these firms are owned largely by families, relying mainly on unpaid family labour and are often unorganised. Similarly, majority of these units are unregistered and can hardly keep records that may be of interest to researchers. Because of these factors only firms that were officially registered and paid regular wages to employees were eventually selected.

Appendix 2 gives the list of all enterprises covered by the survey and indicate that majority of the enterprises are of modern and traditional capitalist origin and therefore belong to the formal sector industrial activities. All of them were found in the category of the manufacturing industries listed in the third broad division of the International Standard Classification (ISIC). In this respect they represent only the manufacturing and processing industries. The list also represents eight broad industry groups namely: Food and Beverages: Textile and Clothing: Tanning and Leather: Furniture: Building: Woodwork and Sawmill: Chemical: and Plastic and Rubber industries.

In each of the eight industry groups studied twelve manufacturing units were sampled. Each unit had four separate product lines representing the three different size categories (small,

medium and large). In all, 96 manufacturing industries were involved in which twelve firms of varying sizes and representing each sub-sector were surveyed. While Kaduna and Kano on the one hand represented states with relatively higher concentration of large scale economic activities, Niger and Plateau on the other hand represent states with relatively fewer concentration of large enterprises as a percentage of national share, and of most recent origin.

### *Field Survey Organisation*

The survey was conducted with the help of twenty trained students of Kaduna Polytechnic, Universities of Jos and Minna as well as Bayero University Kano. Five interviewers represented each of the four states covered by the survey, each headed by one supervisor. The supervisor's task was to liaise with the employers on a regular basis making sure that appointments to visit the units were made before hand and complied with. They were specifically trained to help the interviewers in certain difficult circumstances. Since visits were spread over a two year period it was necessary to maintain a very good relationship with personnel, accounts, and supply and purchasing departments. More specifically, interviewers were trained to identify the labour force that was skilled and unskilled. Visits to industries were done on a three monthly basis where newly hired workers were seen and interviewed. These workers were also observed at the work place and remarks noted.

The results of the tests of the above hypotheses as well as analyses will be undertaken in chapter 7.

## REFERENCES

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- 24 Carr, M., 1981.
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- 26 Ibid, p.10.
- 27 Ibid, p.10.
- 28 A fuller definition of this variable is comprehensively given later on in this chapter.  
Refer to the sector on definition of research variables.
- 29 This variable is also discussed at the end of this chapter.
- 30 The Central Limit Theorem states that: If repeated random samples of sizes  $N$  are drawn from any population (of whatever form) having a mean difference and a variance  $\sigma^2$ , then as  $N$  becomes large, the sampling distribution of the sampling means approaches normality with mean difference and variance  $\sigma^2/N$ . This theorem says that no matter how unusual a distribution one starts with, provided  $N$  is sufficiently larger one can count on a sampling distribution that is approximately normal. See Blalock, 1988, for more details.
- 31 Blalock, H.M. Jr. 1988.
- 32 Ibid.
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- 34 Kilby, P. 1988.
- 35 Liedholm, et al, op.cit.
- 36 Anderson, D., op.cit.
- 37 "Micro/small" refers to firms with fewer than 5 employees.
- 38 See World Bank, 1985, The Task Ahead for the Cities of the Developing Countries, p.35. See also Nelson, E. Robert, Management Development Branch, ILO, op.cit. p.10.
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- 44 Refer to Chapter 4 for shares of individual states.
- 45 Currently the Federal Office of Statistics (FOS) has begun to build a central register which can be updated annually. Similarly, the FOS is currently carrying out a National Census of Industries and Businesses in collaboration with the Federal Ministry of Industries and various States Statistical Agencies (SSA's). A main task of this exercise is the compilation of an up-to-date frame of establishments employing over nine workers and a sample area listing of small establishments. These lists will then be entered into a computer and a comprehensive frame made available for use during the 1990's. There will also be periodic updating of the frame. See O.O. Ajayi - FOS, Lagos - for details of the past difficulties and current measures.
- 46 In their study of small manufacturing industries in India and other south east Asian countries, Little et al, op.cit. observed that policies based on type of products produced by enterprises (as opposed to size of employment) offered better policy prospects for countries faced with unemployment problems. It was this emerging empirical study that led to the enlargement of the product type to cover eight different groups. The relevance of this is further considered in chapter 8.
- 47 This is comprehensively discussed in chapter 5.
- 48 See O.O. Ajayi of the Federal Office of Statistics, for detailed information, op.cit.
- 49 Staley, E. 1961 Harper, M. 1984, Little et al, 1988.
- 50 For the different definitions of small enterprises by different countries refer to Fisher, D. 1965; Lim Chi Peng, 1981; Anderson, 1981; G.S. Hull, 1984 and Ho.S. 1980.
- 51 By a new definition, "small" in Japanese means fewer than 21 workers in manufacturing and fewer than 6 in commerce and services. See Little et al, 1987, p.16 for details.
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- 53 See National Directorate of Employment: Entrepreneurship Development Programme for the Youth Corps Members 1988/89 Service Year: Business notes. Federal Republic of Nigeria.
- 54 Refer to text of paper delivered by the Executive Director First Bank of Nigeria Ltd., Alhaji M.I. Yahaya at the Executive Council meeting of the Nigerian Association of Chambers of Commerce, Industry, Mines and Agriculture on March 3, 1989 in Minna, Niger State. Topic: 'Strategies for the Promotion of Small Scale Industries at Local Government Level', 1989.
- 55 See for example Anderson, 1982 in the case of the Philippines and Cortes et al, 1987 for Columbia and Liedholm and Mead, 1987 for Sierra Leone.
- 56 See also the comments by the World Bank advisor on small enterprises - Levitsky. He noted that a universally acceptable definition of small- and medium-sized enterprises (SMEs) does not exist. It is, therefore, only appropriate for each country to develop its own definition according to national, social and economic conditions. See ILO, 'The Promotion of Small and Medium-Sized Enterprises', Report VI, International Labour Conference, 72nd Session, Geneva, 1986. The definition of enterprises by employment size adopted here is based on the Nigerian Federal Government guidelines for Nigerian Institute of Social and Economic Research (NISER) to identify small enterprises (1-49 employees) that could form the basis of the new industrial policy in the 1990s.
- 57 This criteria has been used by a number of World Bank Staff and other affiliated bodies. See, for example, Little at al, 1988, p.130.



## **Chapter Six**

### **THE NIGERIAN ECONOMY: PERFORMANCE AND STRATEGY**

In chapters two and three a number of controversial concepts that relate to economic development were explored. The popular view that economic growth can lead to either improvement or worsening of the social and economic well-being of the population was thoroughly explored. Diversities of policy propositions that were advanced to mitigate some of the difficulties associated with such developments were equally examined. This chapter provides an empirical analysis of the process of economic development in Nigeria with a view to establishing whether the existing economic and institutional structures, and theoretical frameworks are adequate to lead to the successful implementation of the new policy of industrialisation in Nigeria.

#### **Economic Growth**

A World Bank figure<sup>1</sup> reveals that between 1965 and 1980 average annual growth rate of gross domestic product in Nigeria was 6.9 per cent. Between 1980 and 1988 the rate was considerably reduced to -1.1 per cent. Figures for agriculture indicate annual growth rates of 1.7 and 1.0 per cent for 1965-80 and 1980-88 respectively. While industry as a whole had 13.1 and -3.2 per cent; manufacturing (at 14.6 and -2.9), services recorded 7.6 and -0.4 average annual growth rates between these two successive periods.

The structure of production also reveals that Nigeria recorded a GDP of \$5,850 million between 1965-80 rising impressively to \$29,370 million between 1980-88. The sectoral distribution of gross domestic product shows that agricultural sector's share stood at 54 per cent between 1965-80 but was drastically reduced to 34 per cent between 1980-88 period. Shares for the industrial sector which stood at 13 per cent between 1965-80 recorded an even higher figure ( at 36 per cent) in 1980-1988. The corresponding shares for the manufacturing and services sectors were 6 and 33 per cent between 1965-80 respectively with the latter

increasing its share considerably between 1980-88 period. While the manufacturing sector contributed 18 per cent the services sector's share declined to 29 per cent.

The predominance of the agricultural sector and the relatively unchanged distributions in the rest of the sectors would tend to support the view that despite the rapid increase in population and the relative performance of the manufacturing sector in the last three decades the structure of the economy had not changed significantly. But before such a substantive conclusion can be reached the following represents a more detailed examination of the structure of Nigerian economy by sectors from 1950s to 1980s.

### *Agricultural Sector*

Before political independence in 1960 agricultural produce accounted for some 80 per cent of the Nigerian gross domestic product with groundnuts, palm oil and cocoa contributing more than 70 per cent of the value of the exports. Table 6.1 reveals the different sectors of the Nigerian economy between 1962 and 1968 and indicates that agricultural share (and indeed other sectors) of the economy remained relatively unchanged during this period. The share for the agricultural sector, for example, which stood at 61.2 per cent in 1962 declined rather slightly to 56.4 per cent in 1965/6 and at 55.9 per cent in 1967/8. From the table it is difficult to identify which sector performed well in relation to the rest of the sectors, nevertheless, the picture somehow reveals that agricultural sector continued to dominate the economy right through to the end of 1969 signifying a relatively unchanged structure of the economy.

A World Bank figure<sup>2</sup> reveals that the value added in agriculture (in current dollars) was \$5,080 million in 1970 rising to nearly double this figure at \$10,105 million in 1988. An index of output of major food crops for the period 1960-1975, however, reveals a fall of 20 per cent between its base year (1964/5) and the last full year of the Nigerian civil war (1969).



**Table 6:1**  
**Sectors of the Nigerian Economy, 1962-8(%)**

Sector	1962-2	1963-4	1964-5	1965-6	1966-7	1967-8
Agriculture, Livestock, Forestry and Fishing	61.2	61.1	59.2	56.4	54.9	55.9
Mining	2.0	2.2	3.2	5.3	7.2	3.5
Manufacturing and Crafts	5.8	5.4	5.4	5.9	5.9	7.4
Electricity and Water Supply	0.5	0.5	0.6	0.6	0.7	0.7
Building and Construction	4.4	4.6	4.4	5.2	5.1	4.9
Distribution	12.2	12.7	13.3	13.1	12.7	13.3
Transport	4.2	4.3	4.0	3.6	3.4	3.4
Communications	0.4	0.5	0.5	0.6	0.6	0.5
General Government	3.9	3.6	3.6	3.3	3.3	3.3
Education	2.7	2.6	2.9	2.8	3.0	3.2
Health	0.5	0.5	0.6	0.6	0.6	0.6
Other Services	2.1	2.0	2.1	2.3	2.6	3.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Source:* Second National Development Plan, 1970-74,  
(Lagos; Federal Ministry of Information, 1970),  
p.51 Table 4

In the 1970s farming ceased to be the major source of export products and public resources. By 1980 its contribution to the GDP had shrunk to one fourth. The relative decline has essentially been attributed to the very rapid growth from 1969 of mineral oil extraction as a major contributor to the GDP and source of export earnings and public revenues. In 1975 the agricultural sector contribution to employment was reduced considerable to 64 percent.

An examination of the structure of Nigerian merchandise reveals that while primary commodities' share of export was 65 per cent in 1965 it declined considerably to just 10 per cent of the total in 1988. In comparison, food imports as a percentage of the total stood at 9 per cent in 1965 rising steadily to 18 per cent in 1988.<sup>3</sup> Although cereal imports was estimated at 389,000 metric tons in 1974 it declined slightly to 333,000 metric tons in 1988, perhaps reflecting the economic difficulties during the 1980s.

#### *Industrial Sector-brief history*

The first known industrial plant in Nigeria was a sawmill established in 1917 at Koko in Bendal State by the Miller Brothers of Britain. The next was a soap factory established at Lagos in 1924 by the Uniliver company and later to be followed by the establishment of British-America Tobacco Company (later known as Nigerian Tobacco company) at Oshogbo in 1933 and the Ibadan plant in 1936.<sup>4</sup>

Until the late 1950s the earliest phase of industrialisation in Nigeria was led mainly by the private foreign investors with little government involvement. However, the early government involvement in industrialisation took the form of joint-ventures with foreign private investors. For example, that between United Trading Company and the then Western Region Development Corporation which led to the establishment in Ibadan of plastic products manufacturing plant in 1957.<sup>5</sup>



Equally significant was the establishment of boat building plants by the Federal Government at Okpobo and Makurdi, and the respective regional governments established textiles plants at Aba, Asaba and Kaduna. Similarly between 1957 and 1965, six cement manufacturing plants were established at the initiative of the regional government (three of which were in the western region); and between 1964 and 1965 five major agriculture related industries were established to process palm-oil and cocoa, four of which were again in the western region.<sup>6</sup>

### *Manufacturing Sector*

The biggest single change in the history of the Nigerian economy during the late 1950s and the whole of the 1960s was the rapid increase in the volume of the manufacturing production.

Table 6.2 shows that the volume of total production increased by 398 per cent between 1950 and 1960. Rubber processing had the biggest increase of 7,080 per cent followed by Bakeries (1,550 per cent) and textiles at 1,350 per cent.

While a total of N35 million was invested in the processing and manufacturing sectors, the existing ginneries and groundnuts mills employed 3,600 and 1,400 workers respectively.<sup>7</sup>

Timber saw-milling and the plywood factories on the other hand had 2,000 employees. By 1965 there were 9 textiles plants employing over 12,000 workers, thus constituting the largest absorber of labour within the manufacturing industry. The share of the total labour force accounted for by the manufacturing sector rose from 3 per cent in 1952 to 12.2 per cent in 1970, an increase of 360 percent (see Table 6.2).

Although Nigeria had the largest industrial sector of any black African country, Kilby<sup>8</sup> noted that its percentage contribution to the GDP was smaller than Congo, Kenya and Uganda during this period of analysis. In 1958 manufacturing activities at the current factor cost was valued at N81.0 million (contributing just 4 per cent of the gross domestic product). In 1963 and 1965 the contribution to the GDP rose only marginally from 5 per cent in 1960 to a mere 8.4 per cent

Table 6.2

Gross Domestic Product of Manufacturing in Constant  
1957 prices \*, (1950-1960)

(thousands of £s)

	1950	1954	1957	1960	% increase 1950-1960
Bakeries	19.0	66.0	210.0	316.0	1,550
Oil milling	363.6	356.9	2161.0	2610.0	618
Margarine	2.5	12.0	18.2	18.2	630
Beer & soft drinks	275.9	741.1	1683.7	2800.0	911
Tobacco	1395.8	2226.4	2100.6	2190.0	57
Textiles	4.5	50.0	377.0	613.0	1,350
Rubber processing	19.5	137.8	598.8	1368.0	7,080
Tanning	5.9	16.7	39.2	40.0	586
Sawmilling	498.7	1304.4	1531.4	1800.0	261
Cement	-	-	372.4	1160.0	-

\* P.N.C. Okigbo, Nigerian National Accounts, 1950-7, and  
Estimates of Economic Planning Unit, Federal Ministry  
of Economic Development

*Source:* National Development Plan, 1962-8



in 1965.<sup>9</sup> This notwithstanding, a break down of the industrial sector reveals that the growth in manufacturing continued to be remarkable particularly after political independence in 1960.

During the late sixties and particularly between 1965 and 1980 manufacturing still remained the most dynamic sector of the economy. Between 1965 and 1980, for example, the average annual growth rate in manufacturing was 14.6 per cent although this declined considerably to an average annual rate of -2.9 per cent between 1980 and 1988.<sup>10</sup> The distribution of gross domestic product in the manufacturing sector was equally formidable, for example, between 1965 and 1980 it stood at 6 per cent rising quite significantly to 18 per cent between 1980 and 1988.

Similarly the value added in manufacturing (in millions of current dollars) in 1970 and 1987 stood at \$543 million and \$5,196 million respectively. The distribution of manufacturing value added (in current prices) for some goods in 1970 reveals that food, beverages and tobacco added 36 per cent; textiles (26 per cent); mechanical and transport equipment (1 per cent) and; chemicals (6 per cent).<sup>11</sup> Although figures for 1987 are regrettably not available to provide any meaningful comparisons the above figures do demonstrate that the structure of the Nigerian economy did not change significantly between 1960 and 1980.

One interesting development during the seventies was the gradual shift of emphasis by the government from investment in agriculture to manufacturing. Out of the total planned public sector investment of N3.23 billion during the 1970-74 Plan period agriculture and the manufacturing sectors accounted for 7.5 and 5.0 per cent respectively. A comparative figure for the 1975-80 plan period reveals that out of the total N43.3 million planned investment agriculture and manufacturing sectors accounted for 3.9 and 12.7 per cent respectively. The figures for 1981-84 also indicate a proportionally higher allocation to the manufacturing sector; it was allocated N2970.2 million while agriculture had N1991.5 million.<sup>12</sup>



Although this reflects a significant change in emphasis by the government in favour of manufacturing in one decade, much of the allocation went to largely government industrial enterprises (accounting for some 86 per cent of the total allocation) most of which were large scale projects by definition.<sup>13</sup> Furthermore the percentage distribution of manufacturing value added by industrial grouping reveals a predominance of consumer goods at 70.3 and 65.7 per cent in 1971/72 and 1977/79 respectively. While the intermediate and capital goods sub-sectors made very little contribution to the GDP and grew rather sluggishly, the wholesale distribution and retail trade grew at an annual rate of 12.74 per cent of the total GNP in 1975.

In 1965 and 1988 the percentage share of machinery and transport equipment, textiles and clothing of the total merchandise exports was nil. Manufactures on the other hand contributed only 2 per cent in each of the two periods.<sup>14</sup> This serves to illustrate the insignificant attention accorded to the production of goods for export in favour of production for domestic market. Figures for imports however indicate that in 1965 machinery and transport equipment and other manufactures accounted for 35 and 48 per cent of the total imports respectively during this period. By 1988 the shares for the former declined slightly to 31 per cent while manufactures accounted for 43 per cent of the total merchandise imports.<sup>15</sup>

### *The Petroleum Section*

One significant achievement of the industrial sector before political independence was in the area of oil prospecting following the resumption of oil prospecting and drilling of wells in several parts of the country by the Shell British Petroleum, Mobil, Gulf Oil and AMOSEAS Texaco. The discovery of oil in commercial quantity along side other deposits in 1956 resulted in the exportation of crude oil from early 1958.<sup>16</sup>

While mining and oil exploration contributed some £7.6 million (British pounds) of the GDP of £688.7 million it rose to £8.1 million out of the total GDP of £872.1 million in 1954. There



was a corresponding higher figure for 1960 which stood at £8.4 million out of a total GDP of £981.3 million.<sup>17</sup> Petroleum refining began in 1965 from the Port Harcourt refinery resulting in very modest contribution to the economy, although it did not make significant contribution until the end of the Nigerian civil war in 1970.<sup>18</sup>

Commercial production of oil in Nigeria was began in late 1957 by a consortium of Royal Dutch Shell and British Petroleum. By 1966 production reached 152 million barrels with nearly all of this production coming from Shell-BP.<sup>19</sup> The civil disturbances in 1967 and 1968 severely curtailed the oil production in Nigeria. However, by 1969 a total of nearly 200 million barrels was produced rising steadily to 1.4 million barrels per day by the end of 1970. In 1974 the production reached 823 million barrels (2.256 million barrels per day) with about 70 per cent of the production coming from on-shore.<sup>20</sup> Because Nigerian crude oil was of high quality (low sulphur content) it enjoyed freight advantages in Western Europe and America as compared with the Middle Eastern oil.

Table 6.3 gives the production and average export prices of crude oil between 1966 and 1979. Clearly, the growth in oil production recorded steady growth until 1975 when it recorded a slight fall, with output falling by 21 per cent. It however increased by 16 per cent in 1976 - due largely to increased world demand - until it fell by 9 per cent in 1978; but recorded another increase in 1979 by 21 per cent. A closer examination of the table reveals that the movements in prices were associated with fluctuations in output. The posted price in January 1974, for example, was set at \$14.691 but reduced to \$11.663 by July 1975. Thereafter the prices increased steadily.

During this period substantial revenue was derived by the Nigerian government largely through royalties and profit tax. This was enhanced by the government's administrative wrangling. For example, in 1970 the posted price was raised to \$2.42, rising further to \$2.78 per barrel

TABLE 6.3      Production and average export prices of crude oil

	Production		Average price (US \$ per barrel)
	Annual total (million barrels)	Average daily	
1966	152.4	0.418	
1969	197.2	0.54	2.17
1970	395.8	1.081	2.25
1971	568.9	1.559	3.05
1972	665.3	1.818	3.39
1973	750.4	2.056	4.8
1974	823.3	2.256	14.69
1975	651.3	1.781	12.17
1976	757.6	2.07	13.81
1977	765.7	2.099	14.56
1978	695.7	1.912	14.17
1979	840	2.3	21

Prices are posted prices to 1976 and NNPC sales prices from 1977 of 34-34.9 API gravity, fob ex-Bonny.

Sources: Production figures from Central Bank of Nigeria, Economic And Financial Review: prices from UN, Monthly Bulletin of Stats.



from March 1971.<sup>21</sup> The elimination of harbour dues and other allowances such as deductions for tax purposes and the introduction of premia for low sulphur and freight advantages all combined to produce a tax-reference price higher (at \$3.212) than the posted price. Similarly, the rate of profit tax was raised from 50 to 55 per cent.

With the introduction of the terms of Organization of Petroleum Exporting Countries (OPEC) tax receipts per barrel almost instantly doubled in 1971 (the year Nigeria became a member) from about 90 cents to \$1.65; this also gave the government the option to take royalties in oil instead of cash.<sup>22</sup> The powers of the government to fix posted price for crude oil also ensured higher tax revenues, for example, from \$4.287 to \$8.31 in 1973 and to \$14.691 in January 1974.<sup>23</sup> This made it possible for the government to increase the tax rates on the industry. By the end of 1974 the rate of petroleum profits tax was 65.75 per cent and a uniform royalty rate was fixed at 16.67 per cent of the tax preference price.

Using the accumulated tax profits, the federal government began to acquire part-ownership of the Nigerian operations of the producing companies. In 1972, for example, it was declared that the government owned corporation (Nigeria National Oil Corporation - NNOC - set up in 1971) was to become the sole beneficiary of all future oil concessions. By 1974 a 35 per cent share in all the major oil companies was announced with a total of 542 million naira (at current prices) allocated for the share acquisitions.

Generally, the petroleum sector played a dominant role in the economy of Nigeria in the 1970s. In the 1970s petroleum products supplied about 70 per cent of Nigeria's fuel and energy requirement and consumption rose at a compound annual rate of 20 per cent. By the end of 1970s petroleum provided Nigeria with more than 80 per cent of revenue and thus became a major source of government revenue and dominated the export sector. Petroleum exports as a percentage of total exports rose from 57.6 per cent in 1970 to 96.1 per cent in 1980, and

further to 97.1 per cent in 1985. Similarly oil revenue as a proportion of Federal Government revenues increased from 30 per cent in 1970 to 52.5 per cent in 1971 and 87 percent in 1975.<sup>24</sup>

The increasing importance of the oil industry in the Nigerian economy no doubt has had a serious negative impact on non-oil sector industries. Figures show that in 1970 trade goods sector accounted for 59 per cent of non-oil GDP. This declined to 33.2 per cent in 1975 having been overtaken by the oil sector. The 1980s however saw a drastic decline in petroleum production and revenues. With the exception of 1980 which recorded an annual production of 2.066 million barrels per day and an equivalent \$23,405 million in 1980, net revenue fell gradually. In 1983 the net oil revenue stood at \$13,086 million falling to \$5,997 million by 1981.<sup>25</sup>

Given the above analysis of Nigerian economy, how was the benefit of economic growth distributed in the country during this period? The next section attempts to examine both the growth in employment, unemployment and the structure of income distribution in Nigeria since political independence.

### **Benefits of Economic Growth**

Lack of reliable data would not permit a thorough pursuit of this issue nevertheless available evidence based largely on income distribution, rate of labour force absorption into the formal sector economy, unemployment rate and the structure of ownership and control of businesses in Nigeria as well as the geographical distribution of economic activities will be employed.

Other traditional indicators of economic progress based on social indicators namely: per capita income, infant mortality and primary school enrolment rates will be employed. Inadequate as it may be, it is hoped that this may provide a slight indication of the direction of the distribution of economic benefits in the country.



Nigeria had a total labour force of 21.9 million in 1960 and it rose steadily to 26 million in 1970 and 30 million in 1979. In 1960 70.8 per cent of the total labour force was employed in the agricultural sector. This figure declined to 62.1 and 56.0 per cent in 1970 and 1979 respectively. Commerce, whose share remained virtually unchanged at 33 per cent between 1966 and 1974 experienced a sharp fall in 1984 at 20.2 per cent.<sup>26</sup>

The services and the manufacturing sectors made equal percentage contribution to employment although the latter suffered severe cut in labour force from 1974. While manufacturing sector employed 17.2 per cent of the labour force in 1966/7 its share had dropped significantly to 5.0 per cent in 1984. All the sectors except agriculture (which increased its share considerably from 1985) reduced substantially their share of employment.<sup>27</sup>

Onimode<sup>28</sup> has observed that import substitution strategy of development as applied in Nigeria during the period of analysis produced excessive import dependence. A further consequence of this was the export of surplus local capital that would have been used for expanding job opportunities in Nigeria. Onimode therefore argued that capital intensive technique of production and the unrestrictive capital flight limited to a considerable extent the capacity of the manufacturing sector to increase demand for local jobs. Table 6.4 which is set up to highlight this issue reveals that whereas Japan had relatively more capital than Nigeria, the capital-intensity in Nigeria was higher than in Japan.

One very important sector that made tremendous contribution to employment creation during this period of analysis was the public and the service sectors. The creation of the three regional administrative centres in 1952 and the political independence of 1960 were important in this respect. This gradual shift of political power to Nigerian politicians led to the a widespread expansion of job opportunities within the highly paid public sector. Equally significant was that politicians and businessmen became attached and possibly satisfied with positions of power

Table 6.4

Capital-labour ratios in Nigerian and Japanese  
manufacturing industries, 1967

Industry	Capital-Labour Ratio	
	Nigeria	Japan
Food products	2:455	0:130
Beverages	3:410	-
Tobacco products	1:880	-
Textiles	1:154	0:120
Footwear and clothing	0:769	-
Wood and furniture	0:834	0:110
Paper and printing	1:042	0:121
Leather products	0:571	0:060
Rubber products	0:561	0:111
Chemicals, petrol, coal	1:415	0:400
Non-metal mineral product	3:144	0:140
Metals	1:068	0:510
Machinery	0:537	0:160
Transport equipment	0:925	0:131
Miscellaneous products	0:991	-

Source: Federal Office of Statistics (1967) Industrial Survey (Lagos) and UN (1967) Yearbook of National Accounts Statistics (New York)



Table 6.5

Ownership and control structure of business enterprise in Nigeria

Shareholders value of shares (N)	Numbers			Percentages		
	Nigerian	Expatriate	Total	Nigerain	Expatriate	Total
1	146	113	259	56.4	43.6	100.0
2-2,000	267	418	685	39.0	61.1	100.0
2,001-10,000	182	193	375	48.5	51.5	100.0
10,001-20,000	62	124	186	33.3	66.7	100.0
20,001-40,000	46	82	128	35.9	64.1	100.0
40,001-100,000	47	127	175	27.7	73.2	100.0
100,001-200,000	28	80	108	25.9	74.1	100.0
above 200,000	43	120	163	26.4	73.6	100.0
<b>Total</b>	<b>821</b>	<b>1,258</b>	<b>2,079</b>	<b>39.5</b>	<b>60.4</b>	<b>100.0</b>

Source: Collins, Paul: 'The Political Econmy of Indigenisation: The Case of the Nigerian Enterprises Promotion Decree', -~~African Review~~, Vol.4, no. 4 (1974), p.492

within government establishments.

According to the World Bank sources GNP per capita for Nigeria in 1960 was US\$160.0, this rose to US\$250.0 in 1970 and by 1979 it was US\$670.0 representing an increase of 418.75 per cent in two decades.<sup>29</sup> The figures for the 1988 stood at \$290.0 representing only 0.9 average annual percentage growth rate in the period 1965-1988.

This figure, which may be a reflection of the declining average annual rate of inflation (estimated at 13.7 between 1965-80 and at 11.6 per cent between 1980-1988) clearly indicates a sharp reduction in per capita income during this period. The same source, which puts the population of Nigeria at 51.6 in 1960 and 80.6 million in 1979 (with an average annual rate of 2.5 per cent), also reveals that 13.1 million people lived in urban areas in 1960 rising steadily to 16.4 and 19.5 million in 1970 and 1979 respectively.

Other social indicators reveal that the total primary school enrolment rate stood at 42.0 per cent in 1978 representing a slight rise over the 1970 figure of 34 per cent. Child mortality rate also improved - from 38.0 in 1960 to 24.0 (per thousand) in 1979. The corresponding figure for life expectancy at birth also reveals some improvement - from 39.0 years in 1960 to 48.0 years in 1979 and 51 years in 1988.<sup>30</sup>

By one measure of development the above improvements in social welfare especially the per capita GNP, infant mortality and birth rates as well as the primary school enrolment rates would tend to indicate that Nigeria had achieved some measure of social development. In the absence of any reliable data that would enable a rigorous analysis a comparison of the 1963 census unemployment figures of 1.9 per cent with the 1966/7 survey which recorded an unemployment rate of 1.7 per cent (its reliability being questionable) the evidence would seem to indicate a rather downward trend of 0.2 per cent over the three years period.

However if one compares the figures for urban and rural unemployment rates in the same



period the evidence is that while the 1963 census recorded an overall unemployment rate of 3 per cent, the 1966/7 survey had 8 and 0.5 per cent unemployment rates for urban and rural areas respectively. This signifies that urban areas increased their share of unemployment by almost 300 per cent while the rural areas had slight change.

Table 6.5 reveals that in 1970 only 3.7 per cent of Nigerians held shares of over N100,000. And of those who had at all, 54.1 per cent were clustered round shares of N1.00, and the larger the share values the smaller the population percentage holding them. Certain figures however reveal that foreign monopoly capital dominated all classes of shareholding except those between N1.00 and N1,001 to N5,000. This relative picture can perhaps be explained against the background of the dominance of foreign investment in Nigeria. For example, foreign investment grew from N23 million in 1954 to N41 million in 1960 rising further to N162.8 in 1964 - representing 56.9 per cent of the total national share.<sup>31</sup> By 1966 foreign control of the manufacturing sector in particular accounted for some 70 per cent of the total share capital.

One aspect of economic development that may have affected the distribution of wealth in the country was the geographical distribution of economic activities in Nigeria during the three decades of development. It has been argued that the rapid pace of industrialisation resulted in the highly skewed locational pattern of economic activities both in terms of the geographical distribution of industrial plants and the impact of these on different regional development. This fact has been justified on the evidence that about 74 per cent of industrial employment and 73 per cent of industrial establishments were concentrated in the southern parts of the country even though the south accounted for just 45.5 per cent of Nigerian population.<sup>32</sup>

An equally important aspect was the enlargement of the public sector shortly before and after political independence in 1960. Self-government led to the creation and development of the army, the air force, navy and the police force which all opened up huge job vacancies for many



primary and secondary school leavers. The establishment of universities and other colleges of higher learning naturally attracted a number of educated Nigerians. The creation of twelve states in 1967 to replace the four regional set up was another boost to employment. During the 1967-70 Nigeria Civil War the army expanded from 12,000 strong in 1967 to 250,000 in 1970. This figure was almost two times the size of the total industrial sector employment by 1970. On the basis of this evidence it can be argued that the public sector was the fastest growing sector in terms of employment creation. These jobs opportunities provided enormous incentives, security, good and attractive salaries to the beneficiaries.

The expansion of world capitalism and its impact on the Nigerian business scene deserves attention. The overall expansion of the Nigeria market in the fifties led to the breakdown of monopolistic structure of import trade the of consequence of which was the breaking down of barriers to entry in the import trade. This permitted indigenous population to enter into the business world.<sup>33</sup>

The movement of foreign capital from trade and commerce to large scale manufacturing resulted in the creation of job opportunities in the trading and commercial sectors in the economy. Nigerian traders, for example, increased their share of the import trade from 5 per cent in 1959 to about 20 per cent by 1963. Similarly the withdrawal from general importing by the United African Company and John Holts provided their former Nigerian customers with clearance, warehousing and credit facilities.<sup>34</sup> Of equal importance was the opportunities created by the oil sector from the mid 1960's for Nigeria owned companies in furniture, printing, clearing drilling sites, welding, pipelines, and supplying specialised heavy equipment.

Another major development during the fifties and sixties was that foreign capital in medium and large scale manufacturing necessarily required the good will of Nigeria politicians, holders of power and politically influential businessmen.<sup>35</sup> This led to the appointment of Nigerians as



directors, agents and representatives to the extent that by 1963 about £600,000 worth of shares were sold to more than 6,000 Nigerian shareholders.<sup>36</sup> The replacement of railways by motor transport as the major mode of North-South transportation also created a number of jobs for Nigerians. Encouraging as these may be what was the driving force behind this level of economic and social development? It is to this aspect that we must turn our attention to.

### *History and Strategy*

The period before political independence in 1960 was characterised by colonial economic activities in which the exploitation of raw material for export and importation of manufactured goods dominated. During this period and particularly before the Second World War the manufacturing of products in Nigeria was not considered important by the British Colonial Government and foreign private businessmen.<sup>37</sup> The year 1946, however, marked the beginning of industrial process in Nigeria as dictated by the changes that had taken place in the world within the framework of capitalist economy.<sup>38</sup>

The British Colonial Government launched their 'Ten-Year Plan of development and welfare for Nigeria, 1946-1956', with a total expenditure amounting to £55 million.<sup>39</sup> Within the framework of Western traditional model of development<sup>40</sup> the colonial plan laid great emphasis on wealth creation which necessarily required the utilisation of certain policy instruments and incentives such as Import Substitution Industrialisation strategy. Although foreign investment was the most decisive during the 1950s, certain policy measures and fiscal and monetary incentives were introduced by the Colonial Government to facilitate the realisation of the above objectives.

One of the most significant incentive was the granting of pioneer statuses to industries which entailed a profit tax holiday of two to five years depending on the amount of capital investment. Equally important was the establishment of ordinances by the Colonial Government aimed at

developing and controlling industries like agricultural cash crop productions, mining extraction and distribution and retail. In 1957 the British administration enacted the Industrial Development (Import Duties Relief) Act designed to enable importers of specific goods to claim duties paid on such goods. Also significant was the establishment of the new Central Bank and the creation of the Investment Company of Nigeria in 1959, with the sole aim of attracting more foreign investment to the private sector.<sup>41</sup> Along side these, foreign private investors were permitted to repatriate all their profits.

In 1960, the year of Nigeria's political independence, all political and economic decisions literally became the prerogative of Nigerians. In 1962, Nigeria launched the first National Plan (1962-68) which envisaged investment totalling the equivalent of nearly N2.5 billion, half of which was to be financed from external sources. The main purpose of the industrial policy of the 1960s was to correct past lapses and to meet the new challenges of structural change.<sup>42</sup>

In order to achieve the stated objective the previous colonial measures were maintained in addition to establishment of industrial estates, provision of credit facilities and accelerated depreciation on capital investment. The most significant ones included the Exchange Control Act of 1962 which allowed investors to convert their loan repayment into foreign exchange and the establishment of Nigerian Industrial Development Bank in 1963.<sup>43</sup>

The Nigerian Industrial Development Bank was a credit finance institution set up by government to give assistance mainly to enterprises engaged in manufacturing industry and in the exploration of natural resources in Nigeria aimed at helping to create, expand and modernise industrial enterprises that could make significant contribution to the economic development of the country.



Also significant during the sixties was the Tariff Protection Act which took the form of the reduction or absolute elimination of competition between local and foreign manufacturers of goods that entered a protected market through import reduction or prohibition. It was to be achieved by placing high tariffs on imported manufactured products and by imposing restrictions on competitive imported goods. Attention must now in turn to the size of investment made and the extent it contributed to the level of growth examined earlier on.

Before political independence in 1960, less than N10 million per annum was invested in manufacturing sector in Nigeria.<sup>44</sup> The estimated investment coefficient in 1960 stood at 14.2 per cent rising to 15.1 per cent in 1961, but declined slightly to 13.6 per cent in 1962 and 14.3 per cent in 1963. However it rose to 17.4 per cent and 19.8 per cent in 1964 and 1965 respectively but declined to 17.6 per cent in 1967.

In the four years between 1962 and 1966 private investment made significant contribution to the gross investment: it stood at 59.5 per cent in 1962 and rose further to 62.6 per cent in 1966.<sup>45</sup> While private participation in building and land development declined in the sixties, it rose in acquisition of plant, machinery and equipment and vehicles. During this period manufacturing and road transport vehicles were mostly in private hands while large scale agricultural land and mining development were undertaken mainly by the public authorities. Up to 1966, the fastest growth in assets was for vehicles, which increased by 293 per cent, followed by plant, machinery and equipment with an increase of 200 per cent, and then by civil engineering works.<sup>46</sup>

The pattern of investment in the early 1950s revealed a predominance of produce trade. In fact about 72 per cent of the foreign capital expanded in Nigeria was invested in the produce trade. Any improvement made in agriculture was confined to export crops which doubled in value from 1950-1960. Comparatively, food crops experienced a slower growth over the same

period.<sup>47</sup>

At the end of the Nigerian Civil War in 1970 the Military regime headed by Major General Gowon launched the Second national Development Plan, 1970-74. The essential purpose of the industrial policy was to check the 'undesirable trends in the industrial development and lay down a solid foundation for long-term steady growth and development of the industrial sector'.<sup>48</sup> By the end of the Second Plan period in 1974 it was observed that the objectives merely provided 'a broad view of the ultimate aspirations of the society'.<sup>49</sup>

A more realistic approach was taken by the authors of the 1975-80 Plan by the addition of a set of 'short-term objectives aimed at facilitating the ultimate realisation of the five national objectives'.<sup>50</sup> These were: an increase in per capita income; a more even distribution of income; a reduction in the level of unemployment; an increase in the supply of high level manpower; a diversification of the economy; balanced developments, and; indigenisation of economic activity.

The primary aim of the objectives was to achieve a rapid increase in the standard of living of the average Nigerian, as recommended by the United Nations, ILO and the Brandt Commission. In order to appreciate the significance of these objectives Okigbo<sup>51</sup> has given further classification showing a break down of short-term Third National Plan as follows:

*Growth and Development Objectives:*

- \* an increase in per capita income
- \* an increase in the supply of high level manpower
- \* diversification of the economy

*Social Equity Objectives:*

- \* more even distribution of income



- \* a reduction in the level of unemployment
- \* balanced development
- \* indigenisation of economic activity

Given the balance of the concern between growth and social equity, the ultimate orientation of the objectives was the desire for the articulation of priorities and of policies. The objective of a more even distribution of income was superficially given greater attention during the Third Plan period than in the previous plans. With due limitations redistribution covered only inter-personal income and redistribution of ownership and control of activities (between Nigerians and aliens) but not redistribution of activities (diversification), spatial and regional redistribution (between rural and urban sectors).

To give support to the above objectives, policy was directed to the strategy of:<sup>52</sup>

- \* optimising the growth of infrastructure for the long-term growth of the economy
- \* subsidising facilities in low-income areas by the provision of social services
- \* promoting employment-orientated activities
- \* training for skills and specially for higher level skills so as to resolve in five years 'the shortage of high level and intermediate level manpower'.

The overall strategy of the Third National Development Plan was, first, to use the resources from oil to develop the productive capacity of the economy; and secondly, to lay the emphasis of the policy on 'a more equitable distribution of incomes' and control inflation. The argument for this shift of emphasis towards distribution was fuelled by the belief in government that 'the mobilisation of domestic savings and foreign exchange for development is unlikely to be a major problem in the next five years';<sup>53</sup> consequently, the major effort of the Third Plan would be to 'translate economic growth into meaningful development through income

redistribution'.<sup>54</sup>

During the Third National development Plan two policy instruments were introduced designed to achieve social equity objectives: fiscal policy measures, those aimed at redistribution included the provision of the massive importation of essential commodities through the government-owned National Supply Company, for the payment of reasonably high prices for farm produce controlled by the marketing Boards, for subsidising for agricultural inputs - chemicals, fertilisers, seeds, and others.<sup>55</sup> Incomes policy introduced price control, rent control, and a wage freeze while improving the remuneration of lower grade earners. Among the policy instruments also open to the public authorities were investment in education (both industrial and agricultural), use of local materials: labour and skills.<sup>56</sup>

This policy of liberalisation of imports and of massive importation of 'essential commodities' had a crippling effect on agricultural production in Nigeria such that by the 1980s incentives for food production had been badly depressed.<sup>57</sup> Similarly, the placing of emphasis on consumer imports, the effects on the finance of capital investment did reduce the scope of capital formation below the level suggested by the growth of income. It can therefore be argued that the relaxation of import restrictions, together with the acknowledged excess liquidity in the financial system contributed significantly to the explosion of import demand for consumer goods.

In 1973 the Nigerian Enterprises Promotion Decree<sup>58</sup> was promulgated as a strategy for redistributing the structure of ownership as well as increasing the local involvement in the ownership, control and management of economic activities in the economy. The government viewed it as a gradual process of promoting indigenous participation in all aspects of the economy, especially in those areas that had been dominated by foreign business. This strategy was considered essential because of the need to maximise local retention of profit and increase



the net industrial contribution to the national economy. By the late sixties indigenous businessmen of the Lagos Chamber of Commerce<sup>59</sup> began to constitute themselves into a very formidable pressure group against alien control of businesses. The decree was therefore partly in response to the needs of this powerful indigenous population and was justified on the grounds that it would help to avoid any explosive socio-political consequences that were likely to arise in future.

During much of the seventies and eighties over 86 per cent of the allocation went to the large scale industrial projects. This pattern of investment encouraged capital intensive projects. Of equal importance is the fact that a substantial proportion of the allocation to industry went solely to the government industrial enterprises.<sup>60</sup>

It is important to state that the public sector assisted by the Nigerian Enterprises Promotion Decree of 1972/74 became the prime mover of the economy through huge investments of the growing oil revenues in social, physical and economic infrastructure. By 1980 the Government accounted for about 50 per cent of GDP and over 60 per cent of modern sector employment.<sup>61</sup> It had created some 70 non-commercial and 110 commercial Federal parastatals together with a large number at the state level, many of which relied on government subvention to cover operating losses.<sup>62</sup>

### *Recent Trends*

From mid 1981 the world oil market prices began to collapse ushering in economic crisis in Nigeria. Decline in oil exports and prices led to declines in foreign exchange. This drop in oil revenue triggered other developments. External revenue fell sharply and foreign debts mounted in the face of rising exports. The immediate effect of this was the widening of government deficits. Subsequent efforts made to contain the adverse development only created some further serious problems such as economic depression, rising prices and unemployment.

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**Table 6.6**  
**Economic Misery Index, Unemployment and Inflation Rates,**  
**Nigeria (1985-1989)**

Month end	Unemployment		Inflation		Misery Index
	Rate	%	Rate	%	Units
Dec.1985	6.1		5.5		11.6
Dec.1986	5.3		5.4		10.7
Dec.1987	7.0		10.2		17.2
Dec.1988	5.3		38.2		43.5
Mar.1989	4.4		36.1		40.5
June 1989	4.1		36.1		40.2

Note:(a) Inflation rate is measured by the annual average composite Consumer Price Index (CPI)  
 (b) Economic Misery Index Unit is measured by the addition of annual Unemployment rate and the annual inflation rate (%)

Source: Federal Office of Statistics, in The Nigerian Economist, Dec.11 1989, Vol.3, No.5

Table 6.6, which shows the annual inflation rate, helps to bring out this picture more clearly.

### *Government Action*

In October 1985, the Government declared a 15 month Economic Emergency period during which specified proportions of workers' salaries and companies profits were compulsorily paid to government.<sup>63</sup> On January 1, 1986 about 80 per cent of the subsidy on petroleum products was removed.<sup>64</sup>

The various austerity measures drastically reduced the supply of raw materials and spare parts to the import-dependant manufacturing sector, leading to extensive plant closure, substantial drop in capacity utilisation and retrenchment of workers. Some production cut-backs and ensuing shortages led to very high prices of many essential commodities. Investments, both by the public and private sector shrank and the depression deepened. Thus by the end of 1985, real per capita GDP and consumption were below the levels recorded in the early 1970s .

External debt outstanding rose to over US\$18 billion out of which about \$5 billion represented trade arrears, and external debt service obligations increased to 32 per cent of export.

In the 1986 Budget, the Government adopted a programme of far-reaching economic policies which was revised into an IMF and World Bank-supported Structural Adjustment Programme (SAP) during the second half of the year. The SAP was launched in 1986 covering an initial two-year period (July 1986-June 1988). The aim of SAP was to effectively restructure the consumption and production patterns of the economy, eliminate price distortions and reduce heavy dependence on export of crude oil as well as imports of consumer and producer goods.

Throughout the period of SAP majority of Nigerians experienced severe hardships. Table 6.6 (which shows the economic misery index of Nigeria from 1985 to 1989) helps to demonstrate the nature of the hardship. In December 1985, for example, unemployment rate stood at 6.1 per cent while inflation rate and misery index stood at 5.5 and 11.6 per cent respectively. This



figure rose in 1987 to such an extent that the unemployment rate was 7.0 per cent, the inflation rate and economic misery units rising further to 10.2 and 17.2 per cent respectively. Although the unemployment rate revealed a decline in March 1989 (at 4.4 per cent), the inflation rate stood at 36.1 per cent while the misery index was 40.5.

The above figures thus reveal that the annual inflation rates of over 30 per cent have sustained misery index of above 40 units in an era of relatively slack labour market. When this figure is compared with those of the United Kingdom and United States (with economic misery indices of 13.4 units and 10.1 units respectively for August 1989) the situation really was severe for Nigeria which had previously achieved certain levels of economic and social advances.

It is against the backdrop of this economic scenario that the New Industrial Policy for Nigeria has been launched. Within the framework of SAP, the new policy is focused on the development of small and medium scale enterprises led by the private sector. On the basis of the existing socio-economic scenario, is there any possibility that a strategy of development based largely on small enterprise promotion will revamp the Nigerian economy as well as substantially reducing the levels of poverty and unemployment? In the next chapter an analysis of data collected in Nigeria between 1988 and 1990 will be undertaken with the principal objective of determining the possibility of using small enterprises as means of reducing poverty and unemployment in Nigeria.

## REFERENCES

- 1 Because of the high degree of unreliability of some vital statistic data in Nigeria, most of the figures quoted here are drawn mainly from the 1985 and 1990 World Development report. These figures can be obtained from the various tables from page 178-240
- 2 World Development Report, 1990, p.178
- 3 *ibid*, p.204
- 4 Schatz, S.P. (1963)

5       ibid

6       ibid

7       Nigerian Fourth National Development Plan, op. cit, p.5

8       Kilby,P. (1969)

9       A useful reference with regard to these figures would be Lewis, W.A (1967).

10      Refer to p. 180 of World Development Report,1990.

11      Diejomaoh. V. P. (1965, p.25.

12      ibid. p.27.

13      ibid.

14      World Development Report, 1990, p.206.

15      ibid

16      Okwudiba Nnoli, (1981)p.125

17      ibdi. p. 127.

18      In 1966 there was civil disturbances in Nigeria due to political rivalry. This eventually  
escalated into civil war resulting in serious disruption of economic activities especially  
in the oil sector.

19      Okwudiba Nnoli, 1981, p.125

20      In 1974 70 per cent of oil production was onshore and the remaining 30 per cent  
offshore. However, this percentage share changed in 1979 when off-shore declined to  
25 per cent.

21      See Kirk-Green, et al, p.85.

22      ibid p.85

23      The explanation for this is that the cost of producing crude oil did not rise in proportion  
to the quadrupling of the posted price, which had occurred in the year ended January,  
1974.

24      The figures were computed from the Third and Fourth National Development Plans and  
Federal Office of Statistics, Lagos.

25      ibid

26      Refer to Nigerian Handbook: 1982-83 for the World Bank figure , p.36-7

27      ibid.

28      Onimode, B. (1988). See also Chuta (1980) p.61

29      This World Development Report figure is supplemented by the World Bank figures of  
1979 (see Nigerian handbook p.36 op.cit

30      ibid p.37

31      Aigbokha, E. B.(1988), p. 81.

32      Teriba, O. et al. (1972) Some Aspects of Ownership and Control of Business  
Enterprise in Developing Country: The Nigerian Case" in Nigerian Journal of



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40    This model of development is comprehensively discussed by Bade Onimode, 1986, p.126-140. Detailed analyses of this phenomenon have been discussed by Harris, J.R. 1971; Helleiner, G. 1966 and Lewis, W.A 1967.

41    This institution took over the activities of the West African Currency Board and began to make fiduciary issue of currency.

42    This institution took over the activities of West African Currency Board and began to make fiduciary issue of currency

43    S. P. Schatz gave an elaborate account of the First Development Plan in his article, 'Appraisal of Nigeria's First Development Plan, 1962-68', in Nigerian Journal of Economic and Social Studies, 5.2(1963).

44    R.O. Ekundare, 1973, p.252-256

45    O. Teriba et al. 'Some Aspects of Ownership and Control of Business Enterprise in a Developing Country: The Nigerian Case' in Nigerian Journal of Economic and Social Studies, Vol.14 No.1 (March 1972)

46    Victor P. Diejomaoh, Economic Development in Nigeria (Princeton, New Jersey: Princeton University Industrial Relations, 1965), p.25-29.

47    G.K. Helleiner, 1966. p.18

48    See P.N.C. Okigbo, National Development Planning in Nigeria 1990-92, 1989, p.71.

49    The details of the objectives could be read from the Second National Development Plan, 1970-74. The most significant ones included the need to promote even development and fair distribution of industries; to ensure rapid expansion and diversification of the industrial sector; to create more employment opportunities; raise level of intermediate and capital goods production.

50    Refer to the Fourth National Development Plan Progress Report, Federal Ministry of Planning, Lagos.

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52 Refer to Nigeria, Third National Development Plan, 1975-80, op.cit.

53 Third National Development Plan Progress Report, Federal Office of Planning, Lagos, op.cit. Also see Third National Development Plan, 1975-80.

54 Third National Development Plan, op.cit.

55 Okigbo, 1989, op.cit. p.105.

56 Ibid, p.106.

57 Ibid, p.106.

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65 Ibid, p.37.



## Chapter Seven

### RESULTS AND ANALYSIS

This chapter states and analyses the test statistics with respect to the research variables examined in chapter five and as they relate to enterprises of different size groups. In response to the calls made by development experts to identify where the contribution by enterprises of different sizes to employment is likely to be effective four hypotheses have been advanced to be empirically tested. The sample data that are presented here represent the product of field survey conducted in Nigeria over three years period in which 96 manufacturing enterprises of different sizes and product type were investigated. This chapter more specifically sets out to determine the size category of enterprises that is more likely to provide job opportunities for the urban poor as well as establishing whether enterprises of all sizes are indeed equally demanding of the labour of the poor or not. Overall, it will state whether there is anything to be gained by encouraging enterprises of particular size categories.

Since it was not possible to determine the exact magnitude of the population of manufacturing enterprises in Nigeria a statistical method of analysis was employed. It ought to be stressed that although samples of data are by themselves inadequate in providing accurate and reliable picture of the overall situation their selection became only a matter of convenience. The goal for selecting the samples must therefore be seen as one way of providing practical opportunity to make inference about various population parameters on the basis of known but intrinsically unimportant sample statistics.<sup>1</sup>

The practical importance of statistical generalisation, therefore, is that it can enable one to say something about various characteristics of the population studied on the basis of known facts about the sample drawn from the population or universe. In order to facilitate this process, Difference-of-Means Test has been chosen for computing and analyzing the data collected in the field survey. Since this type of statistical test makes use of the *central limit theorem*

certain assumptions have to be made.

In this research the hypothesis of no difference or the null hypothesis ( $H_0$ ) will directly be tested, in contrast with the research hypotheses which stand as the alternative. Under this approach the interest is focused in the assumption of equal means based on the existence of a difference between two groups. This makes it possible to eliminate the false hypothesis since there are logically only two possibilities: there either is or not a difference. Once the latter possibility has been eliminated, it can then be concluded that some differences in fact exist.

Each of the tables presented in this chapter consists of a summary of three distinct distributions which have further been subdivided into three categories. The first section represents the sample data which contains the descriptive figures of the variables studied. This include percentage mean scores, standard deviations and the number of observations for each set of variables examined. The second set of distribution consist of a set of values namely: the test statistics which bear the sampling distribution, and of inherent importance to the test; the degrees of freedom associated with the computation which represents a pooled sample size of the two samples involved; and the test significance value which determines the degree of differences in the two groups examined.

It is, however, important to note that of the three distinct distributions named above it is the sampling distribution rather than the parent population that will be used directly in this significance test. In the computation undertaken in this chapter the concern will be with the difference between sample means ( $\bar{X}_1 - \bar{X}_2$ ). Since the mean of the sampling distribution is  $U_1 - U_2$ , the following expression for  $t$  will be obtained:

$$t = \frac{(\bar{X}_1 - \bar{X}_2) - (u_1 - u_2)}{\sigma_{\bar{X}_1 - \bar{X}_2}}$$



where  $\sigma_{\bar{X}_1 - \bar{X}_2}$  is an estimate of the standard error between means. Since under the null hypothesis it is assumed that  $\bar{X}_1 = \bar{X}_2$ , the expression for  $t$  in this special case will, however, be reduced to

$$t = \frac{\bar{X}_1 - \bar{X}_2}{\sigma_{\bar{X}_1 - \bar{X}_2}}$$

It ought to be remarked that in any computation involving a comparison of two different sample means, a pooled estimate of two sample means is always taken . As a result, two degrees of freedom is loss - one each in computing  $S_1$  and  $S_2$  from  $\bar{X}_1 - \bar{X}_2$ . The total degrees of freedom will then become  $N_1+N_2- 2$ . The advantage of such a pooled estimate is that it is more efficient than estimates based on either sample alone. The decision to reject or accept the null hypothesis will depend on the size of the calculated t-statistic. Once the  $t$  - statistics value exceed the predetermined critical value of 1.67 at the .05 level of significance the null hypothesis will be rejected. Otherwise, the null hypothesis will be retained.

A detailed step by step procedure for a test of hypothesis is given in Appendix 3. Because of the difficulty often encountered when small enterprises are defined by the size of workforce, two additional tests will be conducted. This will involve flexible adjustment of the size band of SSEs to include enterprises with 1-99 employees, represented here as small and medium enterprises (SMEs). Similarly, small enterprises (with 1-49 employees) will be compared with the combined medium and large enterprises ( 50 and over represented as MLEs ).

All the separate tests conducted here are based on one-tailed difference-of-means tests.<sup>2</sup> The sample data used for computing these tests were derived from Appendix Tables 1 and 2 which represent the descriptive data characteristic of each enterprise group. The following therefore represent the results of the various tests based on a survey of some Nigerian manufacturing enterprises between December 1988 and December 1990.

Hypothesis 1a: *There is no difference in the skill intensity of production between small and large enterprises*

The subject of enquiry for this hypothesis is to establish whether enterprises in general can offer opportunities for the poor and to infer from the data which size category in particular is more likely to achieve this objective. One way of doing this is to identify the different categories of tasks performed by workers in all size groups.

Table 7.1 provides the results of all the four separate tests for this hypothesis. Does the data give reasonable grounds for concluding that there is a significant difference in skill intensity of production between the enterprises compared? A comparison of the mean values of small and medium enterprises with respect to the number of people doing unskilled jobs gives a  $t$ -statistic value of -2.18. Since -2.18 is greater than the critical value of 1.67, the null hypothesis has been rejected at the .05 level. This implies that there are statistically significant differences between the two categories compared with respect to the proportion of people undertaking unskilled tasks in the categories compared.

In the remaining three tests,  $t$  - statistic values of -4.18, -3.33 and -3.63 are obtained for SSEs versus LSEs, SMEs versus LSES and SSEs versus MLSEs respectively. Since the obtained  $t$  -statistic values for these sets of test are considerably greater than the critical value of 1.67, the null hypothesis has also been rejected at the .05 level of significance. The conclusion for all the four separate tests is that significant differences do in fact exist between them with respect to the percentage of people doing unskilled jobs.

A more detailed analysis of the results reveal that the large enterprises examined have a substantially high percentage of total work force made up of skilled workers. Indeed the evidence is that large enterprises have a higher proportion of work force made up of unskilled workers. Of the three categories compared, LSEs (with a percentage mean value of 60.94)



T A B L E 7.1											
Percentage of Unskilled Tasks By Enterprise Size											
Sub-table	7.1a			7.1b			7.1c			7.1d	
Enterprise	SSEs	MSEs	SSEs	SSEs	LSEs	SMEs	LSSs	SSEs	MLEs		
Enterprise Size	1 - 49	50 - 99	49 - 99		> 99	1 - 99	> 99	1 > 49	> 49		
Mean	41.28	52.22	41.28		60.94	46.75	60.94	41.28	56.58		
Standard Deviation	20.2	20.2	20.2		17.32	20.7	17.32	20.2	19.08		
Number of Observations	32	32	32		32	64	32	32	64		
t - Statistic	-2.2			-4			-3.3		-3.6		
Degree of Freedom	62			62			94		94		
Significance	0.03			0			0		0		
RESULTS	Null Hypothesis Rejec	Null Hypothesis Rejec	Null Hypothesis	Rejec	Null Hypothesis	Re	Null Hypothesis	Re	Hypothesis	Rejected	
Source: Author's Questionnaire Survey											

clearly represent the best fit firm in as far as the proportion of unskilled workers is concerned. This is followed by MSEs (52.22 per cent). Small enterprises recorded an average of 41.28 per cent of the workforce made of unskilled workers. The details of this result could be read from Appendix Table 3a.

It is not entirely known whether these differences were due to 'distortions' by the Nigerian government as argued by the World Bank and the IMF. What is certain is that the enterprises covered by the survey were all sampled at the time of structural adjustment programmes as recommended by the World Bank. It is however highly probable that the labour intensive nature of small enterprises on the one hand and the capital or technology intensive nature of the large enterprises on the other hand may have accounted for this difference.

In the analysis of the Nigerian economy in chapter six it was, for instance, observed that during the initial period of slump and stagnation of the 1980's many manufacturing establishments were either confronted with serious constraints or forced to fold up or shed the labour force. As noted, small enterprises were hit the hardest because of their excessive dependence on foreign capital, technology and inputs. Being largely owned by indigenous population, they lacked the necessary foreign exchange to back up increased production. To remain in business necessarily meant that other factors of production had to be sought for internally. Thus, a number of units depended on the more skilled labour force.

The large enterprises, on the other hand, were mainly foreign owned and presumably less affected by the devaluation of currency. The net result was the retention of the high technological content of the production process by large enterprises. Another observation noted was the close and constant interaction of workers with the managers and supervisors in small enterprises. This, and the tight family-type scenario of the ownership of production, created a friendly atmosphere among workers, enabling them from time to time to learn different tasks. All these factors tended to have raised the skill level of the work force in the small enterprises.



T A B L E 7.2											
Employment Growth Rate By Enterprise Size											
Sub_table Enterprise	7.2a			7.2b			7.2c			7.2d	
	SSEs		MSEs	SSEs		LSEs	SMES		LSEs	SSEs	MLEs
Enterprise Size	1_49		50 - 99	1_49		> 99	1_99		>99	1_49	> 49
Mean	6.45		6.72	6.44		4.36	6.58		4.36	6.45	5.54
Standard Dev.	14.6		8.98	14.6		9.52	12.05		9.52	14.64	9.26
Number of Obs.	32		32	32		32	64		32	32	64
t - Statistic		-0.09			0.7			0.91			0.37
Degree of Fre.		62			62			94			94
Significance		0.93			0.15			0.36			0.71
RESULTS	Null Hypothesis Upheld			Hull Hypothesis Upheld		Hypothesis Upheld	Null Hypothesis Upheld		Hypothesis Upheld	Null Hypothesis Upheld	
Source: Author's Questionnaire Survey											

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Thus, unlike large enterprises where tasks of employees were relatively fixed, workers in small enterprises performed a multiplicity of tasks.

These findings, while not conclusive, provide strong empirical evidence that small scale enterprises in Nigeria (during the period of structural adjustment policies) were mainly composed of people doing skilled tasks. This is evident by the percentage mean for unskilled task of 41.28 and 58.72 for skilled tasks. Indeed it is truer to say that they were highly labour intensive with the majority of the workforce doing skilled jobs.<sup>5</sup>

Hypothesis 1b: *There is no difference in the employment growth potentials between small and large scale enterprises.*

This hypothesis is designed to substantiate claims made for small enterprises with reference to employment growth potentials. Empirical evidence from Indonesia, for example, revealed that small scale enterprises required only US\$500 for each additional worker employed, as opposed to US\$50,000 for large scale intensive industries.<sup>4</sup> On the basis of this it came to be assumed that it was cheaper to create new jobs in the small industries than in the larger enterprises. For this same reason, governments in Africa were encouraged to promote small enterprises since they were also capable of generating more jobs than the larger enterprises.

This hypothesis is set up to establish whether statistically significant differences exist between enterprises of different size groups with respect to overall employment growth potentials over a three year period. It is aimed at ascertaining whether SSEs are more dynamic in terms of employment growth rate than the larger scale enterprises during the on-going structural adjustment programmes. The result of the test involving a comparison of the percentage means for all the size categories is presented in Table 7.2. The tests involving SSEs and MSEs on the one hand and SSEs versus LSEs on the other hand give  $t$  - statistic values of -0.09 and 0.7 respectively. Since both values fall below the critical value of 1.676, the null hypothesis for



these two tests have been upheld. Similarly,  $t$  statistic values of 0.91 and 0.37 are obtained for SMEs versus LSEs and SSEs versus MLEs respectively. These values also fall within the critical value of 1.67, leading to the acceptance of the null hypothesis.

The overall results of the four separate tests designed to test this hypothesis reveal that there are statistically insignificant differences between the enterprises examined with respect to the rate of demand for new labour force. On the basis of this outcome it can be concluded that during the period in which the survey was conducted in Nigeria there was no statistical significant difference in the rate of demand for new jobs between small and large enterprises. Even when employment size of enterprises are redefined significant differences are not found. A more detailed result indicate that SSEs have an average employment growth rate of 6.45 per cent. The MSEs and LSEs have 6.72 and 4.36 per cent respectively.<sup>5</sup>

In the Nigerian circumstances of the 1980's, it was not possible to identify the leading factors behind the lack of significant differences in the rate of demand for new jobs by the enterprises surveyed. Certainly, the business cycle or the slump and macro-economic adjustments had something to do with this. However, the extent to which these were responsible require detailed investigations in future researches. Similarly empirical evidences from other countries do not appear to elucidate the above findings. This is because empirical studies from Korea, Taiwan, Hong Kong and India have offered different and conflicting results. In Korea and Taiwan, for example, demand for new jobs by small enterprises are said to have often coincided with acceleration of the overall growth rate of the industrial sector. In times of economic down turn the situation was the reverse.<sup>6</sup>

The outcome of this test tends to support Dhar and Lydall's findings (as examined in Chapter 5) that there is no positive relationship between small enterprises and increase in rate of demand for labour. This is, however, a subject that requires a more rigorous investigation based on qualitative time series analysis.



TABLE 7.3

T A B L E 7.3									
Demand for the labour of the Poor by Enterprise Size									
Sub- table Enterprise	7.3a			7.3b			7.3c		
	SSEs	MSEs	SSEs	SSEs	LSEs	SMEs	LSEs	SSEs	MSEs
Employment Size	1_49	50-99	1_49	>99	1_99	>99	1_49	>99	>49
Mean	12.59	22.5	12.59	20.4	17.55	20.38	12.59	21.4	21.4
Standard Deviation	18.35	17.65	18.35	16.3	18.55	16.32	18.35	16.9	16.9
No. of Observation	32	32	32	32	64	32	32	64	64
t - Statistic	-2.2	-1.79	-0.7	-2.4	94	0.02	94	0.02	0.02
Degree of Freedom	62	62	62	62	62	62	62	62	62
Significance	0.03	0.08	0.5	0.08	0.5	0.5	0.5	0.5	0.5
RESULT	Null Hypothesis	Reject	Null hypothesis	Reject	Null Hypothesis	Uphe	Null Hypothesis	Null Hypothesis	Null Hypothesis
Source: Author's Questionnaire Survey									

Hypothesis 1c: *There is no difference in the demand for the labour of the poor between small and large enterprises*

This hypothesis represents the climax of this research enquiry and has therefore set up to determine whether all sizes do recruit their labour force from the predominantly poor sector of the urban population. And if they do, which size group can result in higher demand for such labour force?

Results of separate tests for this hypothesis indicate the acceptance of the null hypothesis for only one of the four separate tests. Details of the results are given in Table 7.3. It reveals  $t$  - statistic values of -2.20 and -1.79 for SSEs versus MSEs and SSEs versus LSEs respectively. Similarly, -2.35 is obtained for SSEs versus MLEs. Since all the above  $t$  - statistic values fall beyond the acceptance value of 1.66, the null hypothesis has been rejected. However, the null hypothesis has been retained for the test involving the combined small and medium (SME) versus LSEs. A  $t$  - statistic of -0.73 falls within the acceptance region.

In sum, the results of separate tests of hypothesis 1c reveal that there are, statistically speaking, significant differences between small and medium enterprises on the one hand and between small and large enterprises on the other hand with respect to demand for the labour of those classified as the urban poor. Even when small and the combined medium and large enterprises (MLEs) are compared, statistically significant differences do exist with respect to demand for the labour of the poor. A comparison of both the mean and standard deviation values for the categories involved clearly indicate that medium enterprises employed more of the labour of the poor than the rest.

This result is not surprising in view of the fact that small enterprises (as noted in hypothesis 1a) were highly characterised by high levels of skill intensity of production. The result, therefore, tends to point to the fact that the higher the skill intensity of production of an enterprise, the



less the demand for labour of the urban poor. Although this does not represent a conclusive statement there is however the need for a more detailed research work to further substantiate this evidence. In the meantime how can this result be interpreted?

In the case of the quality of labour force recruited by small enterprises it can be observed that majority of the new employees were either civil servants or employees in other enterprises that had been laid off, most of whom possessed certain levels of skills relevant to the new job requirement. Since majority of the newly recruited labour force was not characterised by those classified as the extremely urban poor for whom policy was to be targeted this hypothesis has been rejected. It ought to be remembered that the poor was defined as those urban residents whose monthly income was less than the national minimum wage of N150 in 1988 and also included the uneducated illiterates and partially educated people, for example, primary school certificate holders and the less skilled secondary school leavers who were completely unemployed or sold their work in the urban informal sector for irregular remunerations.

Equally significant in this respect was the tendency for large and medium enterprises to draw their new labour force from those who had previously served as casual workers, based on daily pay scheme. There was also the evidence that unemployment and underemployment was not only limited to the poor and uneducated; equally worth noting was the high unemployment rate among college and university graduates. This scenario, it would seem, limited the scope for the absorption of the labour of urban poor into more productive enterprises.

Hypothesis 1d: *There is no difference in the wages of unskilled workers between small and large enterprises*

This hypothesis is focused on the differing wages paid to unskilled workers by enterprises of different size groupings. Result of the difference-of-means test involving SSEs and MSEs indicate a  $t$  - statistic of 0.30, with 62 degrees of freedom associated with it. Since the





calculated  $t$  value of 0.30 is considerably less than 1.67 and therefore falls within the critical region, the null hypothesis of no difference has been accepted at both the .05 and .01 levels. A test significance value of 0.769 signifies the level of confidence for accepting the outcome of this result. In this particular test it can be concluded that there are no statistical differences in the two groups compared. In the second test involving SSEs and LSEs, the result is that the null hypothesis is rejected, since the  $t$  - statistic value of -2.46 is considerably much higher than the 1.67 critical value.

A test significance value of 0.017 also confirms how probable the decision is. Using the sizes of sample means and standard deviations, LSEs are clearly much more rewarding, with unskilled workers receiving higher wages. The result of this test is given in Table 7.4b. When the enterprises are redefined by adjusting the size band, the test involving the combined small and medium enterprises (SMEs) and LSEs gives a  $t$  - statistic value of -3.39, a value which happens to fall outside the critical region of 1.66 at the 0.05 level of significance. A significance value of 0.001 reveals how probable the decision is. On the basis of this, the null hypothesis of no difference has been rejected and, therefore, conclude for this test that statistical difference exists between SMEs and LSEs with respect to wages of unskilled workers. Refer to Table 7.4c for details of this test.

In the fourth test, a difference-of-means test involving SSEs with 1-49 and enterprises with over 49 employees (MLEs) gives a  $t$  statistic value of -1.38 and a significance value of 0.171. Based on this result the null hypothesis is upheld at the .05 level. It is therefore concluded that there is no significant difference in the wages of unskilled workers in the two size groupings. A more detailed result is given in Table 7.4d.

Since this research is about appropriate development policies, especially as they relate to the most vulnerable section of the urban population - the unskilled poor, this section takes advantage of data collected to explore other relationships that may be useful to policy.



## **Product Type Argument: The Result**

In Chapter 5 it was hinted that apart from the argument based on size of enterprises there are also arguments on the relative efficiency of enterprises centred on the type of products produced. Some enterprises producing certain categories of products are said to be more demanding of unskilled labour of the poor and are therefore able to lead to a more equitable distribution of income than others.

The results of the performance of enterprises desegregated into product types are given in Table 7.5 involving four separate tests namely: Employment growth rates; demand for the labour of the poor; skill composition and wage rates paid to unskilled workers by each group. Although the results of the above variables are not based on comparison of means of two or more groupings they are, however, based on single tests and other descriptive statistics. One important explanation for this is that individual group size is statistically not large enough to yield statistically meaningful comparisons.<sup>7</sup> In this section the obtained sample figures are subjected to statistical tests involving a single as opposed to paired or unpaired variables. The obtained test statistics for each group are then compared with each other.

When the percentage of unskilled tasks of enterprises by product type are compared, the evidence is that there are significant differences between the different sub-sectors. The test statistic value for food and beverages, for example, is 39.56 a value considerably greater than the textile and clothing and furniture. They have  $t$  - statistic values of 4.94 and 6.09 respectively.<sup>8</sup> The evidence here is that food and beverages, followed by building, have more unskilled tasks than the rest of the sectors. The most skill intensive are the textile and clothing with  $t$  - statistic value of 4.94 followed by furniture with 6.09. The scores for the other sub-sectors are given in Table 7.5a.

With respect to employment growth rate by product type, the evidence is that the difference in scores are not substantial. This indicates that employment growth rates during the period



Table 7.5

Performance of Enterprises by Product Type

	7.5a	7.5b	7.5c	7.5d
	Skill intensity	Emp.Gr. Rate	Demand for Lab. of Poor	* Wages of Unsk.Lab.
Food/beverages				
mean	70.75	2.25	20.55	2286.45
std.dev.	6.20	10.15	17.65	265.60
T-statistics	39.56	0.77	4.01	29.80
Textile/clothing				
mean	25.00	8.91	15.26	2408.05
std.dev.	17.54	15.93	14.45	1169.73
t-statistics	4.94	1.94	3.66	7.13
Tanning/leather				
mean	49.08	10.01	26.34	2327.62
std.dev.	14.94	13.02	18.22	416.72
t-statistics	11.38	2.66	5.01	10.04
Plastic/rubber				
mean	63.50	9.10	26.83	2924.32
std.dev.	16.73	9.30	20.98	655.21
t-statistics	13.15	3.17	4.43	15.46
Furniture				
mean	26.08	6.73	17.39	2657.62
std.dev.	14.85	7.35	15.88	607.93
t-statistics	6.09	3.17	3.79	15.14
Building				
mean	56.17	-0.48	13.61	3307.27
std.dev.	7.12	5.36	22.04	1312.84
t-statistics	27.33	-0.31	2.14	8.73
Woodwork				
mean	56.00	1.39	18.30	2866.13
std.dev.	15.40	8.30	16.87	810.90
t-statistics	12.59	0.58	3.76	12.24
Chemicals				
mean	52.67	3.81	13.92	2619.51
std.dev.	16.48	7.12	14.05	601.78
t-statistics	11.07	1.85	3.43	15.08

\* All wages are in Nigerian Naira. The exchange rate of the Naira for the US\$ fell from N1=\$1.0004 in January 1986 to N4=\$1 by 29 September 1986, when the first auction was held, a devaluation of some 75 per cent. By January 1989 the exchange rate stood at N7.2041=\$1.

covered by the survey were not substantial to the extent that significant differences are not traced although slight variations in scores can be observed. Plastic and rubber as well as furniture, however, recorded slightly higher rates of employment growth with both recording a  $t$ -statistic value of 3.17.

The sector that experienced slower rate of employment growth was building with a  $t$ -statistic value of -0.31, this was followed by the woodwork sector with a  $t$ -statistic value of 0.59. Refer to Table 7.5b for the details of this result. The evidence provided by the  $t$ -statistic values with respect to demand for labour of urban poor is that tanning and leather related activities relied more on such labour than the other sectors. A reference to Table 7.5c reveals that substantial differences in scores do not, however, exist in all the sub-sectors.

Finally, wages of unskilled workers by product type reveal substantial differences. In this particular case, the food and beverages sub-sector paid lower wages to unskilled workers with plastic and rubber (3.39) and chemicals (5.08) paying higher wages to unskilled workers. The score for the rest of the products are given in table 7.5.

## **Explaining Unskilled and Skilled Labour**

In the following sections the production system of a few enterprises of different sizes will be examined in order to clarify the differences between skilled and unskilled labour in the production of goods at the factory floor level. The basic production process, the type and level of technology employed will be highlighted. While the shoemaking factories have been chosen because of the identical processes in both small and large units, the rest are set out to show the level of skills involved and the degree of dependence on the labour of the poor.

### ***Shoemaking***

Shoemaking has five distinct basic operational procedures namely: cutting of the outer and lining material or leather to the desired pattern; the sticking of cut pieces together to form the



upper portion of the shoe; the fitting of the upper unto a last; the joining of the lasted upper to the sole of the shoe; and finally, the finishing of the assembled shoe. These processes could be done either by hand using simple equipment or by the use of machine of varying levels of technology.

In a typical shoemaking factory with about four or more workers division of labour becomes the norm. The complexity of the division of labour is, however, a function of type and level of technology employed. In the relatively larger firms the making of shoes entails that most workers become specialised by process. Crescent Shoe, Foot Eleganza and Bata Nigeria Limited will be employed here to illustrate the difference between unskilled and skilled labour in the production of goods and services. Only the production floor will be discussed since most workers are employed to work in factory floor and it represents the stage where skill intensity of production can be fairly difficult to measure than what is usually obtainable in the administrative section where skills are often measured by functional criteria.

### *Crescent Shoes*

This shoemaking unit was family owned at the time of the survey and officially registered employing the services of workers outside the immediate family set-up all of whom received regular monthly wages. It was established in 1979 with an initial workforce of three persons. By 1988 (the year of the survey) it had 12 full\_time workers rising gradually to 24 in December 1990 thus achieving a 41.42 per cent employment growth rate over a period of three years. The unit produced an average of 45 pairs of shoes a day at the time of the survey, but the volume varied depending on whether slippers ( the open casual shoes ) were involved.

The level of skills involved in Crescent Shoes factory was assessed by the type of job performed by individual worker. The cutting of both the outer and lining leather and other materials to a pattern, the stitching or sticking of the outer together, fitting of the upper to a last and the joining of the lasted upper to the sole all required the services of skilled labour. This is



because these processes, with the exception of cutting the outer and lining leather and the polishing stages, the remaining tasks were carried out with the aid of relatively traditional instruments locally improvised. In the stitching of the cut leather pieces, for example, the use of specially designed needles were employed. Details of individual tasks performed by the workers are discussed below.

The cutting of outer materials to a pattern were carried out by three skilled specialists while the stitching of cut pieces of leather together was entirely undertaken by five other skilled workers. Fitting the upper material to a last was also undertaken by the latter workers, but in addition to three others who were specialised in this job. There was no clear division of labour in the joining of the lasted upper to the sole, however, seven workers were involved who had to shuttle between this and the finishing stage. Of the six remaining workers, three were responsible for either polishing or packaging. The company had one driver and one helper as well as one security man with the latter two categorised as unskilled manual workers.

### *Foot Eleganza*

This was a partnership undertaken by some experienced shoemakers who had worked with the more established factories. The company, based in Kaduna, was officially registered in 1983 with initial employee size of 9 workers. In 1988 the employment size was reduced by one but soon increased to 9 by December 1990. The unit produced an average of 54 pairs of covered shoes per week. Output was however dependent on demand as determined by number of orders placed since the finished shoes were sold directly to customers.

At the time of the conduct of this survey all the workers were highly skilled by process although there was no clear division of labour since each of the workers could complete the process of shoemaking on his own. Nevertheless, there were instances in which they assisted each other. The trade mark of this unit was their made to measure production technique which meant that prospective buyers approached the shoemakers directly and measurements of foot



taken and the style indicated. Foot Eleganza employed very simple working tools that were locally made. Needles locally made were used for stitching purposes while wooden equipment with the help of some iron screws were used for lasting.

Foot Eleganza provides a typical example of a small unit consisting of highly skilled independent men working under the same roof. This characteristic necessarily placed severe limits on the employment of additional workers, especially of the unskilled urban poor. This was so because all the tasks were undertaken by the specialists themselves, leaving no room for the requirement of unskilled workers.

### *Bata (Nigeria ) Limited*

Bata was a subsidiary of a multinational company, a part of Bata Worldwide of Toronto (Canada ) which started production in 1976 with an initial authorised capital of about 1.4 million naira. By definition the factory was large at the time of the survey although it suffered severe labour turnover at some stage. In 1976 it had 246 employees on its payroll rising steadily to 370 in 1981. By 1988 however the size of the workforce had shrunk to 96 and finally reached its lowest at 85 in December 1990. This drastic cut in workforce had to do with the economic crisis of the 1980s to the extent that certain tasks previously performed in-house had to be sub-contracted to smaller units.

In 1977 the company (based in Kano) recorded a turnover of some 7.2 million naira. This rose to 15.1 million in 1980; 15.4 in 1982. The initial output was 40,000 pairs of plastic footwear and 290,000 pairs of leather footwear a week. By 1980, about 750,000 pairs of leather footwear were produced a week. During the late 1980s production was drastically reduced to a mere 50,000 pairs of shoes per week in 1990. What were the basic operational procedures and division of labour during the period covered by the survey?

Because of its multinational outlook the machineries employed were heavily capital intensive in

nature to the extent that the cutting of both outer and lining materials to a pattern were fully automated in this factory. The pulling of the upper onto the last was also undertaken mechanically so were the complex mechanical pullers for tacking and adhesion. Indeed, in some instances, hydraulic as well as mechanical cutting processes of varying pressures were used.

Unlike in the two shoemaking units earlier examined, a more complex task carried out by automation in this factory was skiving which dealt with the adjustment of leather pieces to uniform thickness. Employment of high technology machines for lasting and machine\_paced activities were commonly observed. This device (unlike those manually done by skilful men noted above) involved the pulling and attaching of the upper to the insole without some manual operational requirements. Finally, conveyor for machine pace assembly was also visibly seen in operation.

In this particular factory it is easy to see how the level of skills required to perform the relevant tasks were substantially reduced, especially when compared with the first two shoemaking processes examined above. For example, stitching, filling and joining of the lasted upper to the sole were substantially taken over by automation which required relatively less skilled workers to oversee. The workers attached to these stages of production were therefore reduced to routine checks, and supervision. Among these category of workers were other unskilled workers whose responsibilities involved the removal of stacked\_up materials from the machines as well as the general house keeping responsibilities. Other unskilled tasks included the sorting of badly made shoes from good ones, binding and labelling of boxes, and storage or loading of finished goods unto lorries.

This high degree of automation however led to need for highly skilled workers to service and maintain the machines. This provides a good example of how labour, especially the skilled production workers can easily be substituted for capital. Increase in the working capital can



therefore entail few skilled workers at the production floor but may also imply higher skilled workers in the supervisory, laboratory and automation related tasks.

### *Mona Juice*

Mona Juice Limited which was located in Minna started the production of orange, mango and pineapple juices in 1982. At inception it had 56 employees on the payroll. The production of these juices were undertaken on the same production floor with 16 workers directly involved. A total of 17 workers were in the administrative section and this included the managing director, the personnel manager, the sales and purchasing staff, and the accounts staff. All of these staff were classified as skilled workers while such workers like the messengers, and security men were classified as unskilled since they represented manual unskilled tasks requiring limited control over the responsibilities they were assigned to do. Other workers found in the technical section included highly skilled technicians and electricians with other less skilled workers assisting them in carrying out other miscellaneous jobs.

Juice was produced using high technology modern automated machinery to the extend that very little skilled attention was needed except, of course, the services of the production manager, the laboratory technician and one skilled auto panel control worker and the occasional services of technicians. Others were classified as unskilled since they undertook such jobs as the sorting of bad sachets from the good ones, counting of juice sachets into boxes, binding the boxes, and storage of boxes. Other unskilled tasks included the cleaning of machines and factory floor and the disposal of waste product. In the entire production floor all the employees had a minimum of secondary school certificates therefore any one employed to work here (even if he/she was doing unskilled job) was not classified as the urban poor.

### *Pot and Ceramic Factory*

The basic process in ceramic work involves the deposition of raw clay in water, clay refinement, storage of refined clay, weighing of clay to be used, pot or ware making, drying of



ware or pot, biscuit firing of ware, glazing and decoration of ware, second firing of the glazed ware, and finally finishing.

Clay, which is the main raw material for pot and other ware making, is categorised into two: primary and secondary and must undergo certain refinement processes before being transformed into wares. The first stage involve the deposition of clay in water for a number of hours to separate secondary clay from primary. Once this is done the secondary clay must be sift for the finest quality then put back into container to dry and harden to the required consistency. The refined, harden clay is finally stored away in a cellar until needed for use. In pot making itself, a traditional potter's wheel or the more modern high technology factory production technique may be used. The remaining processes include pot making, drying, firing, glazing, decorating and another firing of pots or ware before the final finishing touch.

#### *El Habib Pottery*

Salihu Danlami has been in the pot making business since the early 1960s. During the early 1980s he went to Britain to learner the art of modern pot and ceramic techniques. In mid 1980 he secured a Canadian loan through the Canadian embassy in Nigeria to boost his business. With this loan he was able to build a standard factory and to purchase other necessary equipment. At the time of this survey enquiry Mr Danlami had seven employees two of whom were females.

The initial stage of clay preparation into the refined level requires mostly the services of unskilled workers. Clay preparation and refinement are carried out with the aid of simple equipment most of which were locally made by the proprietor himself. Since the separation of primary clay from secondary is done by immersion of the clay in water and the sifting carried out by the aid of standardised sifts (as determined by the number of holes per square inch) the workers will have little discretion over the quality of final clay produced. In this initial stage of clay refinement the services of unskilled workers are employed and it is also at this stage that



workers receive relatively lower wages in comparison with the more skilled workers.

The next stage involves pot making itself and this requires highly skilled workers to execute. In the production floor itself one potter's wheel, refined clay, a bucket of water and a few water bowls, a weighing scale, some few clay cutting strings and wooden knives, about a dozen of clay bats and sponges, some measuring rulers, working bench, a few locally made brushes and simple potter's chair and drying rafters are just about the tools needed for pot making. This stage requires high degree of skills acquired over many years of practice.

Pot making involves skilful kneading of refined clay with hand on a working bench in order to remove air pockets that may be trapped in the clay. The kneaded clay is then placed on a weighing scale for the required size of pot to be made. Once this is done the kneaded clay is placed on a flat wooden bat and then on a potter's wheel ring with the aid of hands. While one leg is used in spinning the potter's wheel paddle, a skilful hand control clay is required at this stage in order to shape the pot to satisfaction. Of the five skilled workers employed here known had less than three years experience in the act of pot making.

Once pots have been made they are allowed to naturally dry to avoid any cracks from developing. The transfer of the dried pots for biscuit firing in the kiln may not necessarily require the services of skilled workers but in this particular case the skilled workers do the job themselves and with due care. Loading of the dried pots into kiln however requires some levels of skills.

After the first firing, the pots are removed from the kiln by skilful hands unto the glazing room. In this room pots are glazed in a mixture of wood and rice ashes, fine white-stone dust, some chemical substance, and secondary clay to give it the sticky touch. Once pots are glazed and given the glossy touch by the application of certain chemicals (which is the only imported item used here) they are allowed to naturally dry again and ready for decoration and logo signed.

Decoration requires artistic skills and imagination and may involve anything from simple flower to the most sophisticated design with the aid of hand and brushes. This need to be done with the best possible skills and care since any ware that is badly designed will not find a willing buyer.

After another period of the drying process the pots will then be ready for the final firing in the kiln for 14 hours at a temperature of 1300 degrees centigrade. Gas is used in the firing process and once this stage is completed the pots are removed from the kiln and given final finishing by dusting and polishing before being stored away or sold to the public.

From the above example it can be appreciated that the process of pot making is very labour and skill intensive, small as the unit may be. The ratio of unskilled to skilled labour in the production floor is 100 percent, requiring only two low paid unskilled workers at the preparatory stage. One advantage of this type of production is that the two unskilled workers employed here happened to be among those classified as the urban poor since prior to their employment, they earned lower than the statutory minimum wage stipulated by the government as well as being uneducated. The skilled workers, however, had a minimum of secondary education and had earlier worked in government establishments and could therefore not be classified as urban poor in this research for whom policy should be targeted.

El-Habib pottery thus perfectly serve to illustrate both the distinction between skilled and unskilled labour on the one hand, and that small enterprises are not always necessarily more demanding of the labour of urban poor nor are they any more demanding of the services of unskilled workers than the larger scale enterprises, on the other hand.

### *References*

- 1 There are two main practical reasons why it is often necessary to attempt to generalise on the basis of limited information. The most obvious is the time-cost factor. the second one is that it may be impossible to make use of the entire population simply



because the population is infinite or not easily defined.

- 2 A one tail-test is indicated because the direction of the difference has been predicted ahead of time. Based on the review of literature examined in the previous chapters, the general belief among development experts is that small enterprises are better suited in the current situation of less developed countries.
- 3 This decision has been arrived at by comparing both the sample means and the standard deviations of the categories which revealed significant differences.
- 4 Refer to Chapter 6 for a more detailed discussion of this topic.
- 5 This rather tentative conclusion is based on the sample data which is largely descriptive. However, when statistical inference is used as earlier on noted, significant differences were not found to exist. This situation may have been as a result of sampling fluctuations.
- 6 Given the choice of the .05 level and a one-tailed tests, the critical region is determined from the normal table. Since only 5 per cent of the area of the normal curve is to the right of an ordinate 1.67 standard deviation larger than the mean, we know that if the result is more than 1.67 (with over 60 degrees of freedom) standard deviations larger, the null hypothesis should be rejected.
- 7 See Ho, S., 1980 for the Korean and Taiwan figures.
- 8 Compare their sample means and the standard deviations with those for the larger scale enterprises. Both small and the medium enterprises recorded between 3 and 5 times the calculated values than the large enterprises.
- 9 For an unbiased decision to be made using difference - of - means tests, it is required that the total sample size exceeds 30. In this particular case there are only 12 enterprises in each category.
- 10 Other descriptive statistics related to these computations are given in Appendix Table 2b. In this case the percentage *mean* value of unskilled tasks in food and beverages related factories is 70.75 while the equivalent for textiles and clothing is 25 for unskilled tasks. The rest of the values fall within the acceptable region.

## Chapter Eight

### SUMMARY AND CONCLUSION

In chapter one it was observed that during the greater part of the 1960s until the mid 1970s the majority of sub-Sahara African countries recorded impressive economic and social progress. Indeed economic growth was so impressive that some countries recorded GDP growth of 7 per cent! Regrettably, economic growth rapidly decelerated in the late 1970s dropping to 0.8 per cent or less in 1987. Both the agricultural and manufacturing sectors were hit the hardest.

The cumulative impact of several adverse global conditions devastated many countries' economies. Not only did the ratio of debt to export deteriorate, economic disequilibrium aggravated and social regression and human misery exacerbated, with the poorest sector of the society suffering the most. While labour force grew at 2.7 per cent, there was a decrease in formal sector employment by some 16 per cent between 1980 and 1986. With educated unemployment estimated at 4 to 5 million, the 1980s witnessed an increase in employment in the informal sector. Estimates showed that the informal sector created some 6 million jobs between 1980 while only 0.5 million jobs were created by the formal sector.

It was against this setting of increasing social degradation and unending economic hardship that this research was set up with a view of identifying effective policies and strategies that would reduce human misery. In particular, the aim of this research was to investigate certain claims made for small enterprises with particular reference to their ability to reduce poverty and prevent unemployment from rising in the majority of sub-Sahara African countries but with specific reference to the Nigerian situation. The link between small enterprises and reduction of poverty and unemployment was seen in terms of their ability to lead to increased demand for the labour of unskilled urban poor.



While the latter part of chapter one dwelt on the dimension of poverty in sub-Saharan Africa, chapter two was set up to review the various meanings and measurements of poverty. This was necessary because of the need to get to grip with the literature and to help appreciate the inevitable effect of various interpretations of poverty on the associated theories and models of economic development.

In the analyses of the meaning and measurement of poverty in chapter two, poverty was defined both in relative and absolute terms. There were serious implications of such definitions on the development theories and models of economic development. As noted in chapter three employment models such as those of Lewis and Harris-Todaro led to the interpretations of relative poverty in terms of rural-urban income differentials. Both viewed the urban as the most economically prosperous. The implication of this interpretation was equally reflected in economic policies. For example, the Harris-Todaro model encouraged rural development as opposed to urban in order to close the income differentials between the two sectors.

Another implication of Harris-Todaro model was reflected in their assumption that wages in the informal sector were generally lower than those of the formal sector. Empirical evidence has however since revealed that for many urban wage-earners poverty is ever present, and that the informal sector provides opportunities of improving real income for this category. Indeed, the evidence is that some informal sector workers earn on average much higher incomes than the formal sector wage earners. Evidently, at the time of the formulation of their model open unemployment (a concept mostly associated with the developed countries) was not a serious phenomenon in the third world countries. It however came to be established that underemployment was the most appropriate concept to be used. Such was the implication of inappropriate definition of poverty on the general development models applied in less developed countries. On the basis of this, it can be argued that many of the problems faced by the developing countries were the results of the inappropriate understanding of the issues involved.



In the pace of time, however, there was considerable improvement on certain fields. The perception of the informal sector was improved upon the two-sector models of Lewis and Harris-Todaro. It came to be accepted that there was heterogeneity in the informal sector both in terms of supply and demand driven employment and in terms of income.

The redistribution with growth model of development was also partly influenced by the conceptual debate regarding relative poverty. The Kuznets inverted 'U' curve and Adelman and Morris' perception of relative and absolute poverty had direct bearings on policies in the third world. For example, Adelman and Morris findings revealed that economic growth did lead to increasing income inequality, with the poor losing in absolute terms as well. Attempts were therefore geared towards protecting the poorest (arbitrarily defined) of the income bracket. However, as more facts became known the shortcomings of such measurements became imminent. Relative-poverty measure failed to record an income-distribution change even when such changes had occurred. Although some countries were alleviating poverty, yet the relative-poverty measure was totally insensitive to the change. Against this background relative poverty measures were regarded as unsuitable for gauging the distributional consequences of the growth.

The proposition that poverty is an absolute condition and must be analyzed in absolute term began to take precedence. Predominant emphasis was therefore given to data on changes in the number of poor people, the average extent of their poverty, and the degree of inequality among them. Since the late 1970s and throughout the 1980s, the World Bank, ILO and other international agencies concerned with the poverty situation have attempted to refine absolute poverty measures in order to capture all the variables that condition it.

Since the 1970s, a number of policy recommendations have been tabled to the less developed countries some of which included the informal sector development as pioneered by the ILO. The ILO recognised the crucial role of the informal sector in generating employment in the



cities and accordingly identified small individual enterprises for assistance. Regrettably, this effort was short-lived partly because of concerns such as squatter settlements and environmental degradation, the result of broader definition of absolute poverty and the declining incomes of the countries involved. It can be argued that the main reason for economic failure from the 1970s was partly due to policy misdirection and inconsistency embodied in the debate relating to relative and absolute poverty measures.

As economic degradation became severe during much of the 1980s other ideas and theories began to appear. As discussed in chapter three, the Schumpeter's theory of development became an issue for consideration by some developing countries. The heart of the matter was that developing countries lacked entrepreneurs, and since entrepreneurs are viewed as the chosen instruments for negotiating the shift from import to export substitution, with a subsequent drive toward full employment and higher wages, there were calls to increase substantially capable entrepreneurs. Schumpeter himself placed the entrepreneur as innovator at the centre of this model which served to explain the working of other variables in the system. According to this theory, to explain economic growth, innovation and not invention was necessary and without an entrepreneur there was no innovation and private profits.

During the 1980s this theory of economic development was incorporated in one of the several small scale entrepreneurs development programmes in Nigeria. As noted in chapter five the entrepreneurial development programme was based on the Schumpeterian principles. The extent to which this succeeded in turning out innovators and increase in entrepreneurial profits is left to history to judge.

Since the 1980s, the World Bank has encouraged less developed countries to move the poor and the newly displaced (due to structural adjustment programme) into employment and self employment within the tradeable goods sector. Such a strategy, it was argued would support the goals of adjustment, provide those affected with an income and permit any subsidies for the



very poor. Small scale enterprises were readily identified as the most appropriate in achieving this objective. Chapter four represented attempt to preliminarily assess the potentials of small enterprises with a view of establishing whether they represent sectors that policy makers should concern themselves with. The general indication was that there was in Nigeria absence of policy cohesion and clarity of purpose given the huge financial resources.

Chapter six represented an analysis of economic and social progress in Nigeria; how the benefit of growth was distributed and how the economy was guided. The evidence was impressive economic performance especially between 1959 and 1969. The growth in the manufacturing sector, led mainly by foreign capital, was particularly impressive. The 1970s, however, marked a complete reversal of policy. Nationalistic feelings began to creep in to the extent that some businesses previously owned by foreigners were either indigenised or forced to sell shares to indigenous population . This had a divestating effect on the manufacturing base of the country to the extend that some foreign investors developed cold feet and withdrew any further investment.

The development of the petroleum sector during the 1970s deserves attention. Increased revenue from the oil sector did not only lead to massive expansion of educational sector, it equally resulted in heavy importation of both foodstuffs and all kinds of consumer and capital goods. The effect of this was to dampen the agricultural sector as well as threatening the manufacturing base. In deed imported consumer and capital goods and even foodstuffs were comparatively cheaper than those produced locally. The cumulative effect of this was the drastic cut back in local manufacturing capacity and agricultural production. Worse still, investment in education was not geared towards the development of highly skilled manpower that the economy severely needed rather it was primarily concerned with literacy at quantitative level. Equally significant was the massive expansion of the civil service and public sector enterprises saddled with incompetent and low skilled people.



During the 1980s, however, the economic situation deteriorated (due partly to falling revenue from the oil sector and the overall global recession) to the extent that it was no longer easy for government to maintain or increase the volume of employment in the public sector. Indeed, in more recent years the Nigerian government was forced to cut public sector wages in response to the budgetary problems. It was against this background that calls were made for the distribution of income - as one and sure way of attaining both economic and social development or preventing poverty from getting worse. This was justified on the ground that the larger the proportion of income going to the poorer sections of the country, the greater would be the demand for the products of the growing informal sector activities.

From 1986, the government embarked on massive investment in small enterprises the significance of which was discussed in chapter four. In order to prove whether small enterprises are capable of reducing poverty and unemployment in Nigeria a research hypothesis was advanced. The assumption that small scale enterprises under the existing economic situation in Nigeria are likely to reduce poverty and unemployment was statistically tested with the aid of four separate sub-hypotheses. The result of the first sub-hypothesis revealed that, statistically speaking, significant differences were found to exist between small and large enterprises with regard to skill intensity of production. Small units had higher percentage of the workforce made up of skilled workers the implication of which is that small units will generally tend to offer limited job opportunity for the labour of the urban poor. The test of the second sub-hypothesis revealed that there was no substantial difference between small and large enterprises with respect to employment growth rate. The significance of this result will then tend to suggest that there was nothing special about modern small enterprises during a period of general economic decline.

The third sub-hypothesis which directly tested the main research hypothesis revealed that there was statistically significant difference between small and large enterprises with respect to demand for the labour of urban poor. The implication of the result of this third test to the



general assumption that small enterprises are likely to be more demanding of the labour of the urban poor was proven wrong in the Nigerian circumstance of the late 1980s. Finally the result of the test of the fourth sub-hypothesis revealed a statistically significant difference between small and large enterprises in the wages received by unskilled workers, with the larger scale enterprises paying higher wages to unskilled workers.

Since large enterprises were on average both less skilled intensive and more demanding of the labour of the urban poor as well as paying higher wages to unskilled workers it can be concluded that under the existing economic circumstance in Nigeria any assistance given to small enterprises at the expense of large enterprises would not substantially reduce poverty and unemployment. What then is the implication of these findings with respect to policy?

### *Summing Up*

In the analyses examined in this dissertation it has been observed that the relatively good economic performance of the Nigerian economy during the 1970s encouraged the redistribution of income and other economic benefits. During the slump of 1980s, however, Nigeria was forced to adjust and restructure the economy. Since this latter aspect was painful and was felt hardest by the poorest of the society another attempt was made to shield the most vulnerable from further consequences. The entire half of 1980s was thus devoted to the direction of resources in favour of the development of small enterprises to an almost exclusion of larger enterprises. The result of this research seriously casts doubt on the ability of small enterprises in their present form and under the existing economic situation to make any significant impact on the reduction of poverty and unemployment.

On the basis of the information provided in the literature and the results of a field survey, the evidence would seem to indicate that economic development is yet to be properly defined. This, therefore, calls on both the national and international development experts to rethink on what development has actually been and what it ought to be now for the developing countries. There is no doubt that the new world order, as argued by some<sup>1</sup>, has established a new definition of



development. Whether many countries are convinced of this is academic. It is, for instance, necessary to establish with accuracy why at international level certain countries are characterized by a highly skilled labour force while others have very high concentrations of unskilled labour.

Equally significant is the need to establish, with the support of comparative figures, why certain countries were able to achieve appreciable measures of economic and social development at a particular point in history while others did not. Until development is properly defined it will remain highly unlikely that any of the existing policy measures will go far enough to benefit the targeted group namely, the urban poor in Africa.

In the mean time what can be done by the Nigerian government to bring about a development that will enable the full participation of the poor thereby reducing absolute poverty among them? The following sections attempt to advance some speculative suggestions that might have policy relevance to Nigeria under the current economic situation.

The model advanced here is based on the evidence that small and large manufacturing enterprises in Nigeria operate as independent units with little symbiosis between them. Similarly, both produce a wide range of goods using a combination of low and high technology methods of production. While the larger scale enterprises have high degree of connection with the rest of the world economy and jointly owned by the domestic and foreign concerns, the small enterprises on the other hand rely mainly on local businessmen and domestic market. This alternative model thus purports to establish that under such an environment the opportunities open to the poor will necessarily be limited. Under the alternative approach to be examined below enormous scope exists for the full participation of the poor in growth which in turn will ensure the improvement of their incomes, self esteem and respect.



The degree to which this model can lead to a more equitable distribution of income will however necessarily depend on the level of integration of Nigerian economy with the international market and of how much such products will be required by other national markets. Thus the structural reorganisation of the Nigerian manufacturing (or economic) sector and its connection with international market stand as the precondition for its effectiveness. The following sections, therefore, advance and examine the implications of the model in greater details.

### *Some Speculative Suggestions*

The recommendation that can be advanced on the basis of information at hand is that both the widely spread informal sector activities and the more organised small enterprises must be seen to be complementing the activities of the large firms. The reason for this is that both small and large enterprises have their strengths and weaknesses most of which are unique to the individual size groups. Any attempt to integrate the different sizes for mutual benefits would certainly improve their overall efficiency as it has empirically happened under certain circumstances. The huge population (a potential domestic market) and the close family ties that still predominate both in the rural and urban societies in Nigeria are potentials that still remain to be exploited in the production of manufactured goods and in the provision of other services. The following example, based largely on the linkage between large scale manufacturing and small scale agricultural production experience, will help to illustrate the need to integrate small with large firms for production purposes for the mutual benefit of both.

#### *The example of Nigerian Tobacco Company*

Nigerian Tobacco Company<sup>2</sup> provides a good example of a large company involved in the production of goods based on the principle of forward and backward integration. It does not only integrate with the small scale farmers but helps to create and sustain other manufacturing factories and services directly or indirectly linked to the product it produces. Markets for the products of these subsidiary units are not only sustained but loans, employment and reliable sources of income, technical assistance and results of scientific research (among other things)



are provided for the immediate benefits of these units at no extra cost to them, but for the eventual benefit of Nigerian Tobacco Company. The following provides the success story of Nigerian Tobacco Company which stand as an alternative model of development for adaptation in the manufacturing sector of the economy.

Nigerian Tobacco Company ( NTC ) Limited started business in Nigeria as a trading company in 1912 when British American Tobacco Company (BAT) Limited established a depot and a sales network to distribute imported tobacco products.<sup>3</sup> NTC was incorporated in 1951 as successor to BAT and in 1960, some of the ordinary stock of NTC was offered for sale to the public with more shares sold in 1964 and by 1980 the number of NTC's shareholders in Nigeria stood at about fifty thousand. In the mid 1980s the NTC's issued and paid up capital was 50 million naira with its stock dealt with at the stock exchange.

NTC's activities are spread over the whole of Nigeria and has two factories, in Ibadan and Zaria (opened in 1937 and 1959 respectively). While its head office is located in Lagos, it has over 25 offices and installations for its sales and operations all over the country. In 1987 there were 2,000 persons directly employed by NTC. Of its 171 management staff, 160 were Nigerians with all other grades of staff Nigerians. In 1985 NTC made a turnover of some 85 million naira rising to 125 million in 1987 and a further rise to almost 300 million naira in 1989. How was this performance made possible given the period of economic stagnation in Nigerian?

The key to success is largely attributed to the high degree of forward and backward linkages, the huge domestic and regional markets, and the managerial and technical resources at its disposal. In this section, however, its international connection, the strong reliance on the local subsistence farmers and the technical extension services will be considered in order to illustrate the significance of the need for an in small and large enterprises (either in the manufacturing or service sector) for mutual benefits.



Firstly, being part of a multinational organisation, NTC strongly depends on the facilities of BAT's Research and Development Centre in Southampton (Britain) for most of its scientific and technical information. Supported with these international connection and facilities NTC is able to meet foreign exchange requirements more easily than other firms and therefore in a better position to make enormous profit and significant contribution to employment and the diversification of Nigerian economy.

Secondly, for many years NTC has produced most of its tobacco locally, requiring only small quantities of special types of imported tobacco for use in the production of Benson and Hedges. In deed since the entry of NTC into the local sourcing of its tobacco in 1934, the company has as a matter of policy, never owned land for commercial tobacco production, preferring to organise the traditional small-scale peasant farmers to produce tobacco and sell to the company.

In 1989 there were about 45 management and 296 non-management staff directly supporting farmers growing tobacco for NTC thus making the company have the most efficient agricultural extension service in the country. The advisory role of the extension staff, among other things, involve ensuring that farmers begin the crop-year early, advise on early preparation for seedbed and overseeing transplanting of seedlings and any necessary assistance through to the application of fertilizers, harvests and all other cultural practices. The results of NTC's experiments, for example, are imparted to the farmers through extension service personnel.

In addition to these, necessary inputs and materials are planned for and purchased in advance by NTC on behalf of the farmers in such a way as to avoid their suffering any drastic shocks from market fluctuations. The farmers are therefore buffeted by the company's foresight. Such confidence built over many years does not only provide assurance to farmers to produce the necessary raw material but has helped NTC retain its farmers over the years.



Equally significant is that in 1989 NTC provided about 76,000 farmers with guaranteed bank loans to purchase necessary inputs as well as helping the farmers with the preparation of regular statement for loan advances and prompt payments. Additionally, NTC has maintained good working relationship with the farmers especially during difficult times. During the 1980s drought, for example, NTC provided its tobacco farmers in some northern Nigerian villages with about 200 tons of grains (in 1983) and sank tube-well and provided water pumps for the irrigation of farms (in 1987) free of charge. These assistance did not only helped to cushion down the effect of drought but guaranteed continued livelihood through subsistence crop (such as maize, millet and soya beans) and tobacco production.

Another important backward integration is NTC's joint participation with other firms in the provision of products required by the company. The company's involvement in the packaging materials for cigarettes helps to sustain about 2,500 jobs in the sector. Road haulage, which involves the transportation of raw materials and finished products from one area of its operation to the other, employs the services of 18 independent transport companies who in turn employ jointly, about 2,000 people.

Additionally, the distribution of NTC's cigarettes have 700 staff on the payroll and servicing over one million stockist,wholesalers and retailers who make their living from selling cigarettes. Equally is the services of various kinds of contractors namely: plumbers, carpenters, bricklayers and painters, motor mechanics, watering cans and flue pipe makers. All these are run by small scale businessmen which all together provide jobs for an estimated 1,000 people.

During the period of economic stagnation of 1980s NTC run special programme for employment creation (independent of government schemes). The programme which started in 1986 was designed specifically to encourage young school leavers to be self-employed in agriculture. The beneficiaries were taught modern farming skills and at the end of the training registered as NTC-assisted farmers. Through this activity young school leavers were exposed to practical farming skills in the fields of mechanisation, livestock, crop science, soil science,



economics and sociology.

In the late 1980s Bata (Nigeria) Limited was forced by the economic stagnation to emulate the backward and forward integration process through the sub-contracting of most of the processes it had previously undertaken in-house to smaller firms. There is no doubt that a number of small units benefited immensely. This action if encouraged will certainly result in higher productivity among the smaller units, more jobs creation as well as ensuring a more equitable distribution of income in the society.

From the above example it is clear that the special standing of NTC in terms of history, international connection, the high concentration of skilled production, technical and administrative staff did not only serve the immediate interest of NTC alone but those of the smaller units associated with it. Left to the individual small units that had connection with NTC they probably would never have been able to achieve the level of successes examined above.

It is against this backdrop that there is an urgent need to investigate the relative contribution of enterprises which operate on the basis of sub-contracting or symbiosis(of the small and large) and those which do not. The general indication is that one of the keys for reducing poverty and unemployment may be found in this model. Both the poor and rich, the small and large, the rural and urban, the informal and formal, the local and international, the traditional and modern, the low and high technology, the unskilled and skilled must all be viewed in positive and complementary or symbiotic framework. All have their major contributions to make to any given economy; but only just.

Nice as this model may be there are other hurdles that must need necessarily be cleared, namely: political stability is a necessity; good and highly skilled civil service is another one; a willing and committed private sector; the strength of government relative to other governments and to the private sector; the availability of resources and market and the willingness to integrate with the rest of the world economy; existence of entrepreneurs; job satisfaction and



appropriate reward for job done; freedom of expression; and the general willingness of the workforce to continuously increase productivity.

There is also the need to ensure that the marginal position of the poor and the unemployed are substantially improved, so that gains in their productivity are not entirely passed to the richer buyers in the form of lower prices for their goods and services. For ultimate efficiency there must be deliberate action to organise the poor (based on the model discussed above) as producers and consumers so that both will become fused into one. Certainly, the above model-when appropriately conceived and planned - will not only ensure that the poor gain directly from growth and guaranteed full participation in the development process but that it will also prevent the new economic power and wealth being concentrated in the hands of a small minority.

On top of all these must be the consideration of how to make transition from the old patterns to the new system of production. We have gone so far that we need not always wait for slumps and stagnation to decide things for us. We now must lean back to the rich history to help us break this cycle for positive change. Until these issues begin to appeal to governments and concerted efforts made to assess their merits, little will be expected from policies based wholly on small enterprise development. The earlier this was done the better it was for both the poor and the rich alike. Meanwhile the urban poor will continue to be deluded by each passing mirage and wait in anguish for such a time to arrive.

## References

- 1 Harris, N.1986, has most succinctly covered this aspect. Any interested person should read his book 'The End of the Third World' for an alternative perspective of economic development and backwardness. For this particular reference see p.116-119.

- 2 Nigerian Tobacco Company was initially among the firms selected for survey but not included in the 96 enterprises earlier examined because of the absence of similar firms in the small scale category that would permit comparison.
- 3 The factory examined is sited in Zaria, in Northern Nigeria and all information is derived from the interview I had with the company representative and also supplemented with their annual reports and publications.



## **APPENDIXES**

## **APPENDIX 1: DESCRIPTION OF SURVEY INSTRUMENT**

### **A. MANAGERIAL/ADMINISTRATIVE QUESTIONNAIRE**

- A.1 Name of company or firm**
- A.2 Postal address**
- A.3 Business location, Telephone and Telex**
- A.4 Location of branches (if any)**
- A.5 Name of Chief Executive, Address and Telephone**
- A.6 Description of ownership**
- A.7 Is the business a limited liability?**
- A.8 Date of commencement of business**
- A.9 Number of employees**

### **B. PRODUCT AND MARKET (INPUT AND OUTPUT AND FINAL CONSUMERS)**

- B.1 What are the major products produced here?**
- B.2 Could you briefly describe your business and the production process**
- B.3 What are your raw material requirement?**
- B.4 Which of your raw materials are imported?**
  - (a) Percentage of local source**
- B.5 Who designs and specifies your products?**
- B.6 Is production sessional or annual?**
- B.7 What are your sources of capital (funding)?**
- B.8 State amount of investment (to date)**
- B.9 Indicate annual turnover for 1988-90**
- B.10 Have you borrowed money in the last three years?**
  - (a) amount (b) source (c) interest (d) difficulties in borrowing**
- B.11 Do you consider products produced here to be**
  - (a) luxury (b) basic needs products ?**
- B.12 Who are the main customers for your products/services:**
  - (a) "poor" (b) "medium" (c) wealthy households percentage sales:**
  - (a) poor (b) medium (c) wealthy.**
- B.14 What other products do you produce?**
- B.15 Does demand for sales exceed supply?**
- B.16 Is the factory currently running at a loss or gain?**
- B.17 Which percentage of your finished product is sold locally and exported?**
- B.18 Do you face competition from other industries?**
  - Rank the order of importance of your competitors:**
  - (a) Small enterprises (b) Large undertakings (c) Imports**
- B.18b To what extent does the competition affect your output?**
- B.19 What is responsible for low productivity, if any?**
- B.20 How do you intend to improve the quality of your products?**
- B.21 What are the major complaints lodged by customers?**
- B.22 Are the machineries employed here labour or capital intensive?**
- B.23 How do you consider the machineries labour/capital intensive?**



## **APPENDIX 1 (cont.)**

- B.24** Where are the machineries manufactured?
- B.25** What about other technical/spare parts?
- B.26** What are your technical requirements?
- B.27** Explain briefly the difficulties/advantages attached to the machinery needed here.
- B.28** What was the purchase price of the machine i.e. total book value of all machines and equipment?
- B.29** What is the total replacement value of all machineries and equipment?

### **C. EMPLOYMENT RELATED QUESTIONNAIRE - LABOUR AND TRAINING**

- C.1** State number of employees from inception to the present.
- C.2** Explain why there has been increase or decrease in the number of employees.
- C.3** What percentage of the employees are full and part-time.
- C.4** State number that are (a) skilled (b) unskilled labour.
- C.5** State which of (4) above is preferred and why?
- C.6** State number with formal education and relevant qualifications.
- C.7** State whether training facilities are provided and how workers are trained.
- C.8** How long does it take to train skilled and unskilled labour?
- C.9** What difficulties do you encounter in the recruitment of labour force?
- C.10** How many regular workers have been with you since your business started?  
(a) 5-10 years                      (b) 1-5 years                      (c) less than 1 year
- C.11** How many employees have so far left the job?  
What category of employees and why?
- C.12** What is the sex composition of the labour force?
- C.13** How many foreign labour force are employed here?
- C.14** What is the minimum/maximum wages/salary per month?
- C.15** Are wages paid regularly? If No, why?
- C.16** What is the minimum/maximum wage for the skilled/unskilled workers?
- C.17** Are wages/salaries reviewed here? How often?
- C.18** Why are wages increased?

### **D. EMPLOYEE QUESTIONNAIRE PERSONAL INFORMATION OF EMPLOYEES**

- D.1** Your sex: (a) male (b) female
- D.2** How old are you?
- D.3** Are you married? (a) Yes (b) No
- D.4** Do you live in a rented house? (a) Yes (b) No
- D.5** Do you have dependants? How many? Yes/No No: .....
- D.6** What is your highest educational qualification?
- D.7** Do you possess any special skills? (a) Yes (b) No
- D.8** What class of household would you say you belong to?  
(a) Poor (b) Medium (c) Wealthy

## APPENDIX 1 (cont.)

- D.9 What are your parents occupation? .....
- D.10 What are their educational qualifications? .....
- .....

### EMPLOYMENT RELATED

- D.11 When were you first employed here?
- D.12 How did you come to know about the vacancy?
- D.13 Did you have to know anybody before being employed?  
(a) Yes (b) No
- D.14 Did you possess any special qualifications for entry?  
What is it?
- D.15 Was the possession of special/relevant skills a condition for entry?
- D.16 Is this your job ever? If No, what was your last job and where?
- D.17 If you ~~were~~ employed somewhere else why did you leave?

### E. JOB DESCRIPTION AND RESPONSIBILITIES

- E.1 What do you do in this factory? .....
- E.2 How long have you been doing this job? .....
- E.3 Would you say your work status has changed since joining this factory?  
.....
- E.4 How did you rate yourself when you were first employed here?  
.....
- E.5 Are skills and special qualifications necessary in order to carry out the type of work you do here?
- E.6 If No to (5), how long would it take an unskilled/unqualified person?
- E.7 Do you hold any position in this organisation? How long did it take you before holding such a post?
- E.8 Is your current main job full-time or part-time over or under 30 hours?
- E.9 How many hours do you work per day, week, month?  
Would you want to work more hours? Why?
- E.10 Are you satisfied with your current job?

### WAGES, TRAINING AND WELFARE

- E.11 Have you ever broken your service in this factory?  
How many times and why?
- E.12 What is your gross monthly/early salary?
- E.13 What was your wage/salary when you were first employed?
- E.14 Are wages paid regularly?
- E.15 Do you personally have any earned income other than your current employment?
- E.16 Are the wages/salaries paid here adequate for your needs?



## **APPENDIX 1 (cont.)**

- E.17 Have your wages ever been increased? How many times and why?**
- E.18 Have you ever changed duties within this organisation? Why?**
- E.19 Have you ever received any training since joining this firm?**  
**Where, how many times and for how long?**  
**What other incentives do you get?**
- E.20 Do you think lack of training will affect your future career?**
- E.21 Which is your state of origin?**

## APPENDIX 2: LIST OF ENTERPRISES SURVEYED

	Company Name	Approximate Year Business Commenced
1	Amka Sweets/Confectionery	1978
2	Ayaqi Fords	1984
3	El Amin Bakery/Confectionery	1984
4	Niger Paramount	1983
5	Cosy Garments	1981
6	Adhama Garments	1984
7	Ibro Tailoring	1982
8	Fahid Dayel Thread	1980
9	Foot Eleganza	1983
10	Crescent Shoes	1978
11	Reptilax Leather Works	1983
12	Darun Leather Products	1980
13	Niger Polythene Bags	1984
14	Kano Plastics	1982
15	Politex	1981
16	Silver Plastics	1982
17	United Continantal Furniture	1978
18	White Heart Furniture	1976
19	Adams International Furniture	1978
20	Ace Metal Construction	1982
21	Adoko Marbles	1984
22	Hankuri Blocks Industry	1983
23	Challawa Blocks	1979
24	Gambo Blocks Industry	1984
25	Soma Saw Mills	1976
26	Suleja Saw Mills	1978
27	Nwanikme & Sons Woodwork	1981
28	Christopher Woodwizard	1985
29	Safa Chemicals	1984
30	Godiya Pharm	1981
31	Nagarta Drugs	1978
32	Dangi Pharm	1980



Appendix 2 (cont.)

	Company Name	Approximate Year Business Commenced
33	Suleja Flour Mills	1983
34	Mona Juice	1983
35	Bagauda Biscuits	1978
36	Jos Foods	1981
37	Ahida Modern Garments	1969
38	Gezawa Tailoring Factory	1973
39	Nigerian Braiding Manufacturer	1979
40	Nigerian Spinners & Dyers	1976
41	Nigerian Leather Works	1977
42	Arena Tanneries	1977
43	Bata (Nigeria) Ltd.	1976
44	Dunlop Nigeria Ltd.	1978
45	Elephant Plastics	1977
46	Deltaplast	1974
47	Odutola Tyres/Glass	1977
48	Kano Bandag Tyre Industry	1983
49	Dagazau Carpets	1981
50	Bisrod Furniture	1978
51	Steel and Bed Manufacturers	1983
52	Crisma Steel Company	1982
53	Northern Aluminium Manufacturers	1982
54	Chanchaga Clay Product	1981
55	Elsemco (Nigeria) Ltd.	1983
56	Ceramic Manufacturers of Nigeria	1979
57	Arewa Woodprocessing	1973
58	Maitumbi Woodprocessing	1970
59	Karim Woodwork	1978
60	Mokwa Woodwork	1974
61	Nigeria Match/Chemical Industry	1975
62	Plateau Paint and Vanishes	1979
63	Adams Laboratory	1983
64	Union Carbide (Nigeria) Ltd.	1978

Appendix 2 (cont.)

	Company Name	Approximate Year Business Commenced
65	Northern Nigerian Flour Mills	1975
66	Kujama Food Processing	1984
67	Bacita Sugar Co.	1964
68	International Beer & Beverage Co.	1982
69	Northern textile Manufacturers	1961
70	Arewa Textiles	1964
71	Bagauda Textiles	1970
72	Kano Lace Factory	1976
73	Nigeria, Hide/Skin Co.	1977
74	International Tanners Ltd.	1975
75	Great Northern Tanning Co.	1961
76	Kano Pickling & Tanning Co.	1976
77	Standard Plastics Industries	1978
78	Pachoplast (Nigeria) Ltd.	1981
79	Fedco Foam	1969
80	Vita Foam (Nigeria) Ltd.	1974
81	Arewa Metal Construction	1968
82	Nigeria Spanish Engineering	1975
83	Northern Steel Works Ltd.	1981
84	International Metal Industries	1979
85	Primlack (Nigeria) Ltd.	1982
86	Giwarite (Nigeria) Ltd.	1975
87	Alh Ali & Sons Block Industry	1980
88	Kano Kiln	1977
89	Arewa Wordprocessing	1980
90	Maitumbi Woodprocessing	1969
91	Nigerian Iron and Wood Factory	1981
92	Nimadco Ltd.	1978
93	Astra Arewa Ltd.	1973
94	Mentholatum Nigeria Ltd.	1975
95	Plateau Gas Products Ltd.	1980
96	Nigerian Medical/Pharm Co.	1978



### APPENDIX 3: STATISTICAL TEST PROCEDURE

#### Step I: Assumption

An independent random sample from normally distributed population and the population variances will be assumed to be equal. The variables: employment growth rates, rate of demand for unskilled labour, skill ratios and wages of unskilled workers will be considered here as interval scale of measurement. The nominal scale will be represented by size of enterprise (namely small, medium and large) and product type (for example food and beverages, furniture, chemical industries, etc.).

#### Step II: Assumption about hypotheses

As already discussed, the null hypothesis will be represented and presented in the following statistical terms:-  $H_0: \mu_1 = \mu_2$ ;  $H_A: \mu_1 \neq \mu_2$  where  $H_A: \mu_1 \neq \mu_2$  represent the alternative hypothesis of differences of means of the two variables involved in the computations.

#### Step III: The significance level and critical region

For all the tests the .05 level will be used. By a .05 level is meant an assurance of 96 per cent success is not due to chance. Since theory tends to suggest that a difference exist (that is, directional stand), a one tailed test will be used. The critical region will have to be finally decided by the actual sample size based on the returned questionnaires. The decision to reject or accept the null hypothesis would therefore largely depend on the sample size and the degree of freedom associated with it. The rejection or acceptance rule will therefore be: Reject  $H_0$  if  $|T| =$  degree of freedom associated with the significance level under the critical region. Do not reject otherwise.  $|T|$  represents the calculated value from the sample data. If such a value falls within the acceptance region, the null hypothesis of no difference will be retained.

#### Step IV: The Test Statistics

The following formula is often used in test statistics:-

$$t = \frac{(\bar{x}_1 - \bar{x}_2)}{\delta \bar{x}_1 - \bar{x}_2}$$

Since computer will be used computing the test statistics, the actual calculations will not be necessary in this case. In all the computations undertaken in this exercise, Statworks programme as provided by Apple Mackintosh was used.

The remaining two stages (that of computation and drawing of conclusions concerning rejection or nonrejection of  $H_0$  formed the subject matter of Chapter 7.

## **APPENDIXES TABLES**



APPENDIX TABLE 1: EMPLOYMENT GROWTH RATE BY FIRM

Firm Code	Av. No of Employees (3 years)	No. of Employees			Growth Rate 1988-1990 (%)	Share of Newly Recruited Labour Force	
		1988	1989	1990		nonpoor (%)	poor
TC1	6	7	5	5	-14.29	0.0	0.0
PR1	7	6	6	8	16.67	100.0	0.0
FT1	7	8	8	10	12.50	100.0	0.0
TL1	8	8	7	9	8.04	100.0	0.0
WW1	8	7	8	8	7.14	100.0	0.0
WW2	9	8	10	10	12.50	100.0	0.0
TC2	10	8	8	14	37.50	66.7	33.3
CH1	12	14	12	10	-15.48	0.0	0.0
FT2	13	12	14	14	8.33	100.0	0.0
PR2	14	13	15	15	7.78	100.0	0.0
TC3	16	15	18	15	1.67	0.0	0.0
BD2	16	19	15	15	-10.55	50.0	50.0
BD1	17	18	18	14	-11.11	0.0	0.0
TL2	18	12	17	24	41.42	58.3	41.7
PR3	18	14	18	22	25.40	75.0	25.0
WW3	19	23	19	15	-19.22	0.0	0.0
CH2	19	18	18	20	5.56	100.0	0.0
TL2	20	15	20	25	29.17	60.0	40.0
TC4	21	20	20	24	10.00	75.0	25.0
CH3	21	20	20	23	7.50	100.0	0.0
FB1	22	39	25	23	-21.95	0.0	0.0
TL4	24	21	23	27	13.95	66.7	33.3
FT3	25	24	25	25	2.08	100.0	0.0
FB2	26	27	26	26	-1.85	0.0	0.0
FB3	31	27	37	30	9.06	66.7	33.3
PR4	31	25	32	36	20.25	72.7	27.3
WW4	31	29	32	33	6.73	100.0	0.0
BD3	35	33	36	36	4.55	33.3	66.7
FB4	36	34	39	35	2.22	100.0	0.0
BD4	40	38	40	41	3.88	66.7	33.3
CH4	41	38	42	42	5.26	75.0	25.0
FT4	46	45	45	47	2.22	100.0	0.0
TC5	51	41	53	58	19.35	76.0	24.0
TC7	51	34	55	63	38.16	63.0	37.0
CH5	52	52	48	56	4.49	0.0	0.0
TC6	54	50	50	62	12.00	83.0	17.0
FT6	54	43	55	55	22.14	81.0	19.0
TL5	55	52	56	56	3.85	58.0	42.0
FT5	56	48	60	60	12.50	0.0	0.0
BD5	56	56	56	56	0.00	0.0	0.0
FB5	57	59	60	53	-4.99	83.0	17.0
BD6	57	54	57	60	5.41	0.0	0.0
FB6	59	62	60	55	-5.78	0.0	0.0
WW5	59	60	60	57	-2.50	64.0	36.0
FB8	61	81	81	95	8.64	75.0	25.0
TL6	63	60	60	68	6.67	70.0	30.0
WW6	63	58	63	68	8.28	75.0	25.0
CH6	65	62	62	68	6.45	94.0	6.0
PR5	69	61	71	76	11.72	64.0	36.0
PR7	71	60	71	82	16.91	62.0	38.0
FT7	73	70	72	78	5.60	0.0	0.0
WW7	75	80	72	72	-5.00	70.0	30.0
FB7	76	65	78	85	14.49	62.0	38.0

Appendix Table 1 (cont.)

CH7	76	72	76	80	5.41	80.0	20.0
PR6	77	75	75	80	3.33	78.0	22.0
PR8	77	76	70	85	6.77	25.0	75.0
BD7	81	78	82	82	2.56	66.7	33.3
WW8	84	79	84	88	5.55	0.0	0.0
TC8	85	82	85	87	3.01	80.0	20.0
TL8	87	84	80	96	7.62	50.0	50.0
FT8	91	86	92	96	5.66	70.0	30.0
BD8	92	96	89	92	-1.96	0.0	0.0
TL7	93	96	98	85	-5.59	0.0	0.0
CH8	95	91	96	99	4.31	75.0	25.0
TC9	108	104	104	115	5.29	73.0	27.0
BD9	110	112	109	109	-1.34	0.0	0.0
WW9	111	108	112	112	1.85	75.0	25.0
WW10	128	123	131	129	2.49	66.7	33.3
FT9	143	152	152	126	-8.55	0.0	0.0
TL9	145	111	111	111	0.00	0.0	0.0
TL10	145	135	150	150	5.56	60.0	40.0
WW11	150	148	148	155	2.36	57.0	43.0
PR9	168	168	156	145	-7.10	0.0	0.0
CH9	166	145	172	180	11.64	69.0	31.0
BD10	168	167	167	170	0.90	0.0	0.0
TL11	177	175	175	180	1.43	80.0	20.0
WW12	177	183	178	171	-3.33	0.0	0.0
CH10	183	165	182	202	10.65	75.0	25.0
BD11	207	202	208	212	2.45	70.0	30.0
CH11	215	224	210	210	-3.13	0.0	0.0
FT10	227	215	226	239	5.43	71.0	29.0
PR10	289	207	224	224	4.11	66.0	34.0
FT11	304	275	315	322	8.38	72.0	28.0
TL12	307	276	323	323	8.51	81.0	19.0
CH12	316	306	318	325	3.06	65.0	35.0
FB10	323	285	330	355	11.68	80.0	20.0
FB9	329	301	335	352	8.19	66.7	33.3
PR11	388	380	395	390	1.34	70.0	30.0
FT12	406	384	418	418	4.43	25.0	36.0
BD12	429	431	431	426	-0.58	0.0	0.0
PR12	481	468	488	488	2.14	65.0	35.0
FB12	538	492	543	580	8.59	74.0	26.0
TC10	551	550	551	551	0.09	0.0	0.0
FB11	553	563	548	548	-1.33	47.0	53.0
TC11	1245	1304	1236	1197	-4.19	0.0	0.0
TC12	3122	3172	3123	3070	-1.62	0.0	0.0

N.B. Zero (0.0) represents no entry or fall in size of labour force.

FB - Food and Beverages  
 TL - Tanning and Leather  
 FT - Furniture  
 WW - Woodwork

TC - Textiles and Clothing  
 PR - Plastic and Rubber  
 BD - Building  
 CH - Chemicals



APPENDIX TABLE 2: SKILL INTENSITY OF PRODUCTION AND WAGES OF UNSKILLED WORKERS

Firm Code	Total No. of Workforce 1990	Skill Task (% of total)	Unskill Task (% of total)	Average Annual Wage of Unskilled Workers (1990)
TC1	5	100	00	0000.00
PR1	8	62	38	2413.83
FT1	10	90	10	2209.68
TL1	9	67	33	2124.52
WW1	8	50	50	2615.57
WW2	10	80	20	1570.00
TC2	14	86	14	1729.00
CH1	10	80	20	1973.20
FT2	14	86	14	2569.33
PR2	15	33	67	2769.56
TC3	15	87	13	2069.64
BD2	15	53	47	2070.08
BD1	14	36	64	2445.00
TL2	24	25	75	2244.00
PR3	22	55	45	2559.60
WW3	15	53	47	4576.92
CH2	20	55	45	1440.00
TL2	25	44	56	2225.00
TC4	24	79	21	1946.67
CH3	23	48	52	1951.56
FB1	23	39	61	2384.56
TL4	27	56	44	2057.14
FT3	25	76	24	4487.37
FB2	26	31	69	4117.26
FB3	30	37	63	2063.00
PR4	36	64	36	1956.00
WW4	33	64	36	2102.86
BD3	36	36	53	4513.33
FB4	35	23	77	3132.00
BD4	41	54	46	3512.00
CH4	42	55	45	3116.67
FT4	47	64	36	3104.05

Appendix Table 2 (cont.)

Firm Code	Total No. of Workforce 1990	Skill Task (% of total)	Unskill Task (% of total)	Average Annual Wage of Unskilled Workers (1990)
TC5	58	84	16	2768.56
TC7	63	75	25	2426.68
CH5	56	27	73	2025.09
TC6	62	92	08	1820.50
FT6	64	77	23	2524.22
TL5	56	82	18	1936.00
FT5	60	80	20	2513.06
BD5	56	41	59	2410.35
FB5	53	30	70	1544.40
BD6	60	48	52	2011.78
FB6	55	27	73	2004.31
WW5	57	28	72	2565.62
FB8	95	28	72	2089.38
TL6	68	41	60	2879.79
WW6	68	32	68	2755.96
CH6	70	41	59	2844.57
PR5	76	41	59	2726.67
PR7	82	34	66	2804.07
FT7	78	87	13	2554.40
WW7	72	37	63	3066.27
FB7	85	31	69	2112.36
CH7	80	54	46	4233.42
PR6	80	35	65	2254.95
PR8	85	32	68	2571.08
BD7	82	48	52	2964.49
WW8	88	45	55	2103.70
TC8	87	39	61	2456.22
TL8	96	43	57	2682.67
FT8	96	34	66	1211.24
BD8	92	43	57	2550.00
TL7	85	42	58	2580.87
CH8	99	52	48	2226.57



Appendix Table 2 (cont.)

Firm Code	Total No. of Workforce 1990	Skill Task (% of total)	Unskill Task (% of total)	Average Annual Wage of Unskilled Workers (1990)
TC9	115	57	43	2068.77
BD9	109	44	56	2261.69
WW9	112	35	65	2236.03
WW10	129	35	65	2466.47
FT9	126	83	17	2350.45
TL9	111	65	35	3462.00
TL10	150	50	50	4130.00
WW11	155	36	64	4298.35
PR9	145	28	72	2581.44
CH9	180	22	78	2142.93
BD10	170	29	71	2575.15
TL11	180	51	49	3027.19
WW12	171	33	67	2808.28
CH10	202	65	35	3325.00
BD11	212	45	55	3129.59
CH11	210	34	66	3393.80
FT10	239	71	29	2865.68
PR10	224	28	72	3241.00
FT11	322	69	31	2850.16
TL12	323	46	54	3620.00
CH12	325	35	65	2278.41
FB10	355	26	74	2417.92
FB9	352	37	63	5568.51
PR11	390	16	84	5204.22
FT12	418	29	71	2779.62
BD12	426	38	62	3449.83
PR12	488	10	90	3779.80
FB12	580	19	81	3562.09
TC10	551	39	61	2758.00
FB11	548	23	77	2428.57
TC11	1197	34	66	2131.59
TC12	3070	19	81	2682.08

**APPENDIX TABLE 3: PERFORMANCE OF ENTERPRISES BY EMPLOYMENT SIZE AND PRODUCT TYPE  
(SKILL INTENSITY BY PRODUCTION)**

Descriptive Statistics	By Size of Enterprise (Employment)				By Type of Product Produced by Different Enterprises							
	SSEs	MSEs	LSEs		FB	TC	TL	PR	FT	BD	WH	CH
Mean	41.28	52.22	60.94		70.75	25.00	49.08	63.50	26.08	56.17	56.00	52.67
Median	45.00	59.00	65.00		71.00	20.00	52.00	66.50	23.50	55.50	63.50	50.00
Standard Error	3.57	3.54	3.06		1.79	5.06	4.31	4.83	4.29	2.06	4.45	4.76
Skewness	-0.15	-0.98	-0.68		-0.09	0.54	-0.42	-0.27	1.42	0.45	-1.05	-0.23
Standard deviation	20.00	20.02	17.32		6.20	17.54	14.94	16.73	14.85	7.12	15.40	16.48
C.V.	11.56	14.75	19.90		39.56	4.94	11.38	13.15	6.09	27.33	12.59	11.07
Total No. of Observations	32	32	32		12	12	12	12	12	12	12	12



APPENDIX TABLE 4: EMPLOYMENT GROWTH RATE BY SIZE OF FIRM (EMPLOYMENT) AND BY PRODUCT TYPE

By Size of Enterprise (Employment)				By Type of Product Produced								
Descriptive Statistics	SSEs	MSEs	LSEs	I	FB	TC	TL	PR	FT	BD	WH	CH
Mean	6.45	4.26	6.72	I	2.25	8.91	10.01	9.10	6.73	-0.48	1.39	3.81
Median	6.45	2.41	5.52	I	5.20	4.15	7.15	7.14	5.63	0.45	2.42	5.34
Standard Error	2.59	1.68	1.59	I	2.93	4.60	3.76	2.69	2.12	1.55	2.39	2.06
Skewness	0.25	2.30	1.29	I	-0.91	0.67	1.22	0.13	0.06	-0.95	-1.03	-1.53
Variance	214.21	90.62	80.65	I	103.05	253.78	169.41	86.54	54.02	28.72	68.82	50.72
Standard deviation	14.64	9.52	8.98	I	10.51	15.93	13.02	9.30	7.35	5.38	8.30	7.12
C.V.	226.95	218.52	133.69	I	451.68	178.71	130.01	102.21	109.26	-114.52	598.97	186.93
t-stats	2.49	4.23	2.59	I	0.77	1.94	2.66	3.39	3.17	-0.31	0.58	1.85
Total No.of Observations	32	32	32	I	12	12	12	12	12	12	12	12

APPENDIX TABLE 5: DEMAND FOR LABOUR OF URBAN POOR BY EMPLOYMENT SIZE AND PRODUCT TYPE

By Size of Enterprise (Employment)				By Type of Product Produced by Different Enterprises								
Descriptive Statistics	SSEs	MSEs	LSEs	I	FB	TC	TL	PR	FT	BD	WW	CH
Mean	12.59	22.50	20.38	I	20.44	15.28	26.34	26.83	17.39	13.61	18.30	13.92
Median	0.00	25.00	25.50	I	22.50	18.50	31.66	28.50	23.50	0.00	25.00	13.00
Standard Error	3.24	2.11	2.88	I	5.10	4.17	5.26	6.06	4.59	6.36	4.87	4.06
Skewness	1.11	0.26	-0.13	I	0.15	0.04	-0.40	0.51	-0.14	1.16	-0.06	0.16
Variance	336.70	285.55	266.31	I	311.57	208.91	331.99	440.33	252.32	485.59	284.67	197.54
Standard deviation	18.35	17.65	16.32	I	17.65	14.45	18.22	20.98	15.88	22.04	16.87	14.05
C.V.	145.70	78.83	80.09	I	86.34	94.61	69.19	78.20	91.35	161.92	92.19	100.99
Total No.of Observations	32	32	32	I	12	12	12	12	12	12	12	12



APPENDIX TABLE 6: WAGES OF UNSKILLED WORKERS BY FIRM SIZE  
AND BY PRODUCT TYPE

By Size of Enterprise (Employment)				By Type of Product Produced by Different Enterprises							
Descriptive Statistics	SSEs	MSEs	LSEs	FB	TC	TL	PR	FT	BD	WW	CH
Mean	2501.54	2444.35	3058.58	2286.45	2408.05	2327.62	2924.32	2657.62	3307.27	2866.13	2619.51
Median	2234.50	2518.64	2829.22	2248.86	2380.40	2354.27	2844.03	2814.54	2494.50	2721.15	2631.47
Standard Error	169.54	93.82	150.23	76.73	337.67	120.30	189.14	175.49	378.98	234.09	173.72
Skewness	0.41	0.64	1.23	0.11	-0.11	-0.11	1.07	-0.50	-0.50	0.55	-0.72
Variance	919797.13	281663.18	722179.58	70647.32	1368279.03	173652.85	429297.83	369574.36	1723543.40	657551.33	362135.13
Standard deviation	959.06	530.72	849.81	265.80	1169.73	416.72	655.21	607.93	1312.84	810.90	601.78
C.V.	36.34	21.71	27.78	11.62	48.58	17.90	22.41	22.87	39.70	28.29	22.97
Total No. of Observations	32	32	32	12	12	12	12	12	12	12	12

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